

A world view

Biden's multilateralism comes with a distinct US accent — COMMENT, PAGE 25

Bitter fruit

Flanders fears economic price of a no-deal Brexit — BIG READ, PAGE 23



Debt to society

It's time to stop bingeing on 'M&M' financing — INSIDE BUSINESS, PAGE 10

Hitting a wall Manchester resists curbs

Talks between Andy Burnham, Greater Manchester mayor, and Robert Jenrick, the communities secretary, broke down yesterday as the city continued to resist stricter coronavirus rules.

Mr Burnham — backed by the area's 10 borough leaders, most of its Tory MPs, and the business community — argues that "Tier 3" restrictions would do more harm than good and wants any tightening to be accompanied by an increase in economic support.

Meanwhile, in Wales, Mark Drakeford, first minister, announced a 16-day "firebreak" lockdown, from Friday. The reimposition of curbs on movement and mingling is designed as a "sharp shock" to arrest a surge in infections.

Reports pages 2 & 3



A mural of nurse Melanie Senior in Manchester. Peter Barber's work is based on a photo by Johannah Churchill — Christopher Furlong/Getty Images

Eurozone heads for €1tn deficit amid efforts to control pandemic

◆ Fiscal shortfall to hit 9% of GDP ◆ Tenfold rise over 2019 ◆ Lagarde warns against 'cliff effects'

MARTIN ARNOLD — FRANKFURT
SAM FLEMING — BRUSSELS

Eurozone governments plan to go deeper into the red than ever before this year, racking up budget deficits of close to €1tn as they splash out on emergency measures to counter the coronavirus crisis.

Draft budget plans published by member states on the European Commission website indicate the 19-country bloc will slide to an aggregate fiscal deficit of €976bn, equal to 8.9 per cent of gross domestic product this year, based on Financial Times calculations.

That means this year's budget deficits would be almost 10 times higher than last year's levels and the commission's forecasts for this year. Governments estimated that their deficits would stay

high even when their economies rebound in 2021, when they expect an aggregate shortfall of just under €700bn, or 6 per cent of GDP.

The previous peak in eurozone deficits came in early 2010, according to the European Central Bank, when budget shortfalls rose to 6.6 per cent of GDP.

That led to levels of public indebtedness that unsettled investors and sowed the seeds of the subsequent eurozone sovereign debt crisis.

However, investors and policymakers have shown few signs of alarm about this year's surge in spending and debt levels. Borrowing costs of peripheral eurozone countries, such as Italy and Greece, fell to record lows last week, driven down by the ECB's massive bond-buying programme.

"It is clear that both fiscal support and monetary policy support have to remain in place for as long as necessary and 'cliff effects' must be avoided," Christine Lagarde, president of the ECB, said on Sunday.

The more relaxed attitude was summed up at last week's meetings of the IMF and World Bank, where senior officials have shifted from calling for austerity to urging countries to throw caution to the wind by borrowing heavily to tackle the fallout from the pandemic. "First you worry about fighting the war, then you figure out how to pay for it," said Carmen Reinhart, chief economist at the World Bank.

Marco Valli, chief European economist at UniCredit, said that governments had to "keep spending all that's



needed to support their economies and reduce... long-term damage."

The IMF last week predicted that eurozone's government debt, having surged more than 15 percentage points from last year's pre-Covid level, would top 100 per cent of GDP this year and hover at a similar level in 2021.

Globally, the IMF estimates that governments have increased spending or cut taxes by \$11.7tn so far this year, equal to 12 per cent of GDP.

The consequent strains on public finances prompted EU leaders in July to sign up to an unprecedented €750bn joint borrowing programme, conducted by the commission, to help the hardest-hit member states pay for the economic damage being done by the pandemic.

China's recovery page 6

Briefing

► UK and EU lock horns over big mergers

The British competition watchdog is tussling with Brussels for control of some of Europe's biggest mergers in the run-up to the end-of-December deadline for a Brexit trade deal. — PAGE 10

► France launches Islamist crackdown

Emmanuel Macron has launched a crackdown on Islamists after the decapitation of a teacher. He said: "Islamists should not be able to sleep easy in our country. Fear is going to change sides." — PAGE 4

► Amigo bonuses need FCA approval

Amigo has been told it cannot pay dividends or bonuses without the permission of the regulator — the latest blow to the subprime borrowing group.



REPORT & LOMBARD, PAGE 14

► China accused of 'wolf warrior' attack

Taiwan has accused Beijing of an extreme example of its "wolf warrior" intimidation diplomacy, saying that two Chinese officials beat up one of its diplomats in Fiji. — PAGE 6; GIDEON RACHMAN, PAGE 25

► Spain's income guarantee flooded

More than 1m applications for Spain's flagship anti-poverty measure has caused a deluge of benefit claims and a months-long delay in payments, fuelling a heated political debate. — PAGE 4

► Beijing approves HK leg of Ant listing

Chinese payments group Ant has received approval from regulators for the Hong Kong part of its \$30bn IPO, say people with knowledge of the matter, setting up the world's biggest stock market debut. — PAGE 10

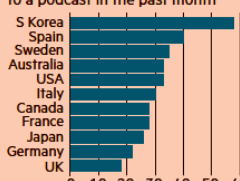
► Alibaba pays \$3.6bn for Sun Art stake

Alibaba is buying a controlling stake in Chinese supermarket Sun Art as it focuses on grocery delivery, a key growth engine for the ecommerce group during the pandemic. — PAGE 12; LEX, PAGE 26

Datawatch

Streaming soars

% of population that have listened to a podcast in the past month



Sources: Reuters Institute, Statista

The number of people listening to podcasts has more than doubled in the US since 2015. However, this is far behind the figure for South Korea, which has the greatest proportion of fans.



Criminals set up companies to attempt Covid-era fraud

Businesses are being established at a record rate as criminals attempt Covid-related fraud. Companies House said some 'have been set up to take advantage of what's going on with Covid', including 'someone who was selling their company on eBay'. Bankers say that criminals have set up companies to take out lightly checked state-backed loans. However, a shake-up is set to bring in the most radical changes in oversight for two centuries.

Analysis ► PAGE 2

Square Mile puts onus on flexibility in plan to reinvent itself after Covid crisis

DANIEL THOMAS

The City of London wants to encourage small businesses and those in the arts sector to "re-enter the city centre" to help the country's financial capital recover from the economic damage of the coronavirus pandemic.

The City of London Corporation, which governs the Square Mile, has drawn up a plan to create start-up hubs and more affordable workplaces in London for smaller businesses, many of which have been hit hard by the Covid-19 lockdown.

The plan recommends that "flexible working" season rail tickets be introduced in line with new commuter behaviour to accommodate working from home. It also calls for buildings to be designed for remote working practices, with spaces to socialise and meet.

The recommendations outline ways

to encourage flotations in London such as through dual-class listings, and suggest streamlining financial and tech regulations as well as protecting the visa status of skilled staff in the City after the Brexit transition ends.

The City wants a fifth of office tenants to be new by 2025, half of journeys between rail and workplaces to be walked or cycled with the development of pedestrianised and bike routes, and a 50 per cent increase in weekend and evening visitors.

The report to be published this week with consultants Oliver Wyman and Arup — which lays out a "vision for London in 2025" — is designed to be worked on with businesses, the government and regulators.

"London is today facing major challenges. Coronavirus, the UK's exit from the EU and increasing protectionism

across the globe are all threats to the capital's role as an international business hub," said Catherine McGuinness, policy chair at the CLC.

The government's decision to tell workers to stay home again in September stalled companies' office-reopening plans after the national lockdown, sparking fears for the many businesses that rely on workers, such as restaurants and bars.

Among the other proposals, the CLC wants to conduct a regulatory review of listings to ensure competitiveness against other financial centres, and encourage more companies to list in London, in particular in the technology sector where "competition is particularly fierce". Forms of "dual class" shares — which have been important for founder-led tech groups — should be considered, it says.

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World Markets

STOCK MARKETS				CURRENCIES				INTEREST RATES					
	Oct 19	prev	%chg		Oct 19	prev			price	yield	chg		
S&P 500	3471.46	3483.81	-0.35	\$ per £	1.178	1.172	£ per \$	0.769	0.774	107.30	0.76	0.02	
Nasdaq Composite	11640.12	11671.56	-0.27	\$ per €	1.300	1.293	€ per \$	1.103	1.103	UK Gov 10 yr	0.17	-0.01	
Dow Jones Ind	28531.51	28606.31	-0.26	£ per €	0.907	0.907	¥ per £	124.275	123.547	Ger Gov 10 yr	-0.63	-0.01	
FTSEurofirst 300	1417.58	1422.19	-0.32	¥ per \$	105.470	105.415	£ index	77.309	77.290	Jpn Gov 10 yr	0.02	0.00	
Euro Stoxx 50	3244.04	3245.47	-0.04	¥ per £	137.095	136.287	SFr per £	1.182	1.182	US Gov 30 yr	1.17	0.01	
FTSE 100	5884.65	5919.58	-0.59	SFr per €	1.072	1.072	€ per \$	0.849	0.853	Ger Gov 2 yr	105.43	-0.79	-0.02
FTSE All-Share	3311.77	3325.67	-0.42										
CAC 40	4929.27	4935.85	-0.13										
Xetra Dax	12854.66	12908.99	-0.42										
Nikkei	23671.13	23410.63	1.11										
Hang Seng	24542.26	24386.79	0.64										
MSCI World \$	2440.14	2435.93	0.17										
MSCI EM \$	1124.08	1120.54	0.32										
MSCI ACWI \$	583.11	582.00	0.19										

COMMODITIES							
	Oct 19	prev	%chg		Oct 19	prev	%chg
Oil WTI \$	41.23	40.88	0.86				
Oil Brent \$	42.89	42.93	-0.09				
Gold \$	1905.05	1891.90	0.70				

	price	prev	chg		price	prev	chg
Fed Funds Eff	0.10	0.09	0.01				
US 3m Bills	0.11	0.11	0.00				
Euro Libor 3m	-0.54	-0.53	-0.01				
UK 3m	0.05	0.05	0.00				

Prices are latest for edition

Data provided by Morningstar

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Ludwig Ferdinand Schnorr von Carolsfeld, detail from "Vale of Chamouni with Mont Blanc," 1848
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NATIONAL

Brexit

Barnier moves to restart stalled talks

EU chief negotiator offers dialogue on legal text after UK called off negotiations

JIM BRUNSDEN AND SAM FLEMING
BRUSSELS
GEORGE PARKER — LONDON

Britain and the EU yesterday began to repair last week's rift over post-Brexit trade talks, increasing hopes that intense face-to-face negotiations could resume this week in London.

Following a phone call with David Frost, the UK's chief Brexit negotiator, Michel Barnier, chief EU negotiator, said

on Twitter that Brussels was prepared to begin discussing detailed legal treaty texts and was ready to "intensify" the talks, signalling the possible end-game in the fraught negotiations.

Last Friday Downing Street said the talks were "over", but British officials welcomed Mr Barnier's move and said talks could resume if the EU accepted that both sides needed to compromise to reach a deal.

Following a summit last week, EU leaders including Germany's Angela Merkel and French president Emmanuel Macron publicly indicated a willingness to compromise, setting the

bar for restarting talks at a relatively low level.

One senior British official said: "We are hoping that talks can begin again in the second half of this week."

Mr Barnier and Lord Frost are expected to talk again by phone in the next 48 hours.

Lord Frost tweeted after his "constructive" talks with Mr Barnier yesterday: "The EU still needs to make a fundamental change in approach to the talks and make clear it has done so. We will stay in close touch."

Downing Street said that Mr Barnier's offer of intensified talks based on legal

texts was "what would be expected at this stage in a negotiation", but Michael Gove, cabinet office minister, also called it "constructive".

With less than three months to the end of the Brexit transition period on December 31, the UK has for weeks complained that the EU has been unwilling to thrash out the detailed legal language needed to unlock a deal.

For its part, the European Commission had said it wanted to identify landing zones on the key areas of disagreement between the two sides before getting down to detailed joint drafting.

While Mr Barnier had already

announced talks would be held this week in London, Boris Johnson, prime minister, said last week there was no point in the Frenchman coming unless the EU made an offer that respected the UK as an independent country.

Mr Gove told MPs yesterday that Britain's door was "still ajar" for talks with the EU on a trade agreement, but said the EU would have to fundamentally shift its position.

He said parallel talks yesterday with Maros Sefcovic, EU vice-president, on implementing last year's Brexit divorce deal had been "very constructive".

See Big Read

Public health

Wales set for 16 days of 'sharp shock' lockdown

JASMINE CAMERON-CHILESHE
AND JIM PICKARD

Wales will begin a 16-day "firebreak" lockdown on Friday, Mark Drakeford, first minister, has announced, as he warned that a "sharp shock" was needed to slow the surge in coronavirus infections.

The intervention by the Labour-run Welsh government, coming just days after Northern Ireland introduced its own four-week lockdown, put pressure on Boris Johnson, prime minister, to introduce a similar circuit-breaker in England.

Keir Starmer, Labour party leader, has called for a national lockdown of two to three weeks to prevent the virus getting out of control. Mr Johnson is for now sticking to his plan for a three-tier system with tighter restrictions in areas with the highest rate of infection, with Liverpool having already agreed to enter tier 3.

Civic leaders in Greater Manchester are still in a stand-off with the government over the terms on which the region might enter the same tier.

Mr Drakeford said that from 6pm on Friday until midnight on Sunday, November 8, residents will be encouraged to stay at home where possible. Non-essential retail, leisure and hospitality businesses will close alongside community centres, libraries and recycling centres.

Places of worship will also be forced to close with exceptions for ceremonies such as weddings and funerals and residents will be banned from meeting people outside their households.

Child care facilities will remain open, while primary and special schools will reopen as normal after the half-term break, which for most schools is next week.

Secondary schools will also reopen as normal to year groups seven and eight, the youngest two years, as well as pupils sitting exams, Mr Drakeford said.

University students will be encouraged to remain on campus and continue to undertake blended in-person and online learning.

The first minister stressed that the "firebreak period" offered the nation the "best chance of regaining control of the virus", adding: "The window we have within which to act is only a small one. This firebreak is the shortest we can make, but that means it will be sharp and deep in order to have the maximum impact."

While Mr Drakeford expressed his sympathy with residents, he argued that action was needed to protect health services: "Both I and my cabinet colleagues are acutely aware of the demands we are making of our fellow citizens here in Wales as we ask everyone to stay at home and require businesses to shut."

To help sectors affected by the new restrictions, Mr Drakeford said he would introduce an enhanced package of financial support, which will include a one-off payment of up to £5,000 for small and medium-sized businesses.

The latest announcement follows the introduction of a Welsh travel ban, which came into effect on Friday. Under the guidance, residents in tier 2 or tier 3 areas within England, the central belt of Scotland and all of Northern Ireland, face restricted travel to Wales.

Boiling over Hospitality staff protest

Hospitality workers brandishing pots and pans take to Parliament Square in London yesterday to protest against tougher coronavirus restrictions, including the 10pm curfew, and the amount of financial support given by the government to the industry.

Chef and author Yotam Ottolenghi, who joined the 200-strong protest, said he favoured a "circuit-breaker" lockdown, rather than incremental restrictions that he claimed were slowly killing the industry. "Nobody works in the hospitality industry to get rich. We do it because we love what we're doing — and there's so many people who depend on it," he said.

Frank Augstein/AP



Reforms. Corporate governance

Companies House aims to push criminals out of business

Shake-up will see the most radical changes in oversight for almost two centuries

DANIEL THOMAS

Businesses are being set up in the UK at a record rate, according to the register of corporate activity, as criminals attempting Covid-related fraud establish companies alongside entrepreneurs creating new ventures.

"Since the start of the Covid pandemic, we initially saw a drop but we are now running at a record level of new incorporations for the last two months," said Louise Smyth, chief executive of Companies House.

Ms Smyth said a number of factors were behind the rise in company formation, including people losing their jobs and setting up businesses instead.

But the rise also reflected "people trying to game the system", she acknowledged. Companies House is working with law enforcement bodies to tackle the criminal activity.

"We have had companies that have been set up to take advantage of what's going on with Covid. Not just the loans, but companies doing scams. We did hear of someone who was selling their company on eBay."

Senior bankers have also raised concerns that criminals have set up companies to take out lightly checked government-backed loans. The National Audit Office this month warned that tens of billions could be lost through fraud and defaults.

In the second quarter of 2020, the last for which there is official data, there were 176,115 new incorporations, an increase of 3.6 per cent on the same period last year.

During the pandemic, a pause in striking companies off the register and a relaxation of insolvency rules means fewer companies have gone bust. The number of dissolutions in the second quarter of 2020 fell 90 per cent compared with 2019, to 14,606. More than 4.5m companies are now on the register, compared to 2.7m in 2010.

Tackling criminal behaviour, which transparency campaigners say has long

been a weakness of Companies House, is a focus of reforms agreed last month. When passed into law, these will see the most important changes to how companies are overseen in the UK for almost two centuries.

The agency will strengthen the accuracy and transparency of company

'We did hear of someone who was selling their company on eBay'

Louise Smyth, Companies House

ownership through more robust identification processes, use new powers to investigate suspect filings and develop better anti-fraud technology.

"We are putting in a system to identify that people are who they say they are," said Ms Smyth.

The reforms are partly driven by a government desire to crack down on dirty money flowing into the UK. The National Crime Agency has estimated that as much as £90bn is laundered through the UK's financial system each

year, including by using shell entities registered at Companies House.

Transparency International, a campaigning group, claims to have found 929 UK companies involved in 89 cases of corruption and money laundering between 2009 and 2019.

"People are rightly saying that we could do more," said Ms Smyth, adding that one of her first tasks after the reforms have passed into law will include the creation of a "risk engine" to identify suspicious activity.

Under current laws, Companies House can check records to make sure the right boxes have been filled in, but no checks are made on whether information provided is correct.

Closing this loophole and verifying directors' identities are arguably the most important reforms, particularly in the fight against financial crime.

Companies House received about 200 requests a month for help from law enforcement agencies before the pandemic — a number that has risen steeply in recent years.

A common fraud is for criminals to use false addresses as their registered

office. Ms Smyth highlighted one example involving a woman whose address was used to register a bridal company. "And so this poor woman had all these brides outraged because they weren't getting their dresses. It was really difficult. And there wasn't really very much I could do to help her."

Another involved 800 false companies registered at a single address — the reforms make it easier to remove such inaccurate information from the register. Companies House will also work more closely with other government departments, such as the tax authority, to identify suspicious activity.

The agency is also constrained by most of its records being stuck in a pre-digital age. Some accounts are saturated in arsenic — an old means of document preservation but now so dangerous that handling the books requires gloves.

"We've got a lot of legacy, we've got a lot of manual workarounds [to problems], we've got multiple data entry and information, and obviously there's potential for things to go awry. We're at the beginning of a five-year transformation programme," said Ms Smyth.

Freight movements

Peak-time container delays cause storm in a port at Felixstowe

PETER FOSTER

Felixstowe, Britain's biggest container port, is grinding to a "virtual standstill" at peak times, users and freight trade associations have warned.

The facility in Suffolk, which markets itself as the "Port of Britain", is facing calls for government intervention after a rise in complaints from hauliers, in part because of the pandemic.

Businesses and hauliers said a shortage of time slots for picking up containers was creating additional storage costs and delays in supply chains, with some resorting to airfreighting shipments at significant extra cost.

The port "is at a virtual standstill and the issue is being blamed on a shortage of labour", said the Felixstowe Port Users' Association, estimating it was operating at "70 to 80 per cent capacity", compared with 94 per cent in Southampton.

"This . . . is a problem for the whole of the UK's economy because about 40 per cent of all containers coming into and departing from the UK do so through Felixstowe," it said, adding it had called for increased capacity since June.

The association said operators were preparing for a shift in border arrangements caused by Brexit, which risked putting additional pressure on the port.

On October 9 the British International Freight Association urged ministers to intervene at the port, where members were suffering "major operational damage". "Bifa members have suffered from two years of poor service from the port, and we feel there is a need for independent intervention by the government," said Robert Keen, director-general.

Ministers have not intervened in what they consider a commercial matter, but

Whitehall indicated the Department for Transport was monitoring the situation.

Felixstowe is advised by Chris Grayling, who, when transport secretary, handed a £13.8m Brexit contract to a ferry company that owned no ferries. The register of MPs' interests shows he is paid £100,000 for seven hours' work a week.

Bifa said the port's Vehicle Book System appeared to be at the root of the problem. Port users said VBS slots to pick up containers were running at about 180 an hour, compared with 240 in 2010. It said a crane at Felixstowe was unloading 16 containers per hour, compared with more than 30 at rival ports.

Felixstowe, owned by Hutchison Ports, said the crane movement numbers were "inaccurate" but declined to provide alternative data. It said 4,500 vehicle slots were available daily and 90 per cent of containers were available for collection immediately on discharge from a vessel, with average stays on the quayside just over five days.

The port denied it had furloughed too many staff during the pandemic, which it said had reduced productivity by 5 per cent. The VBS had "spare capacity each

day and we continue to handle over 90,000 containers per week . . . the overwhelming majority of which are customs-cleared and available for collection on arrival".

But port users say delays remain unacceptable. Peter Crelen, managing director of Norfolk Feather Company, which supplies Harrods and Dunelm, among others, said the port appeared to be in "chaos" and the delays were starting to hurt the business. "We are having to air freight at a cost of £3,000 to £10,000 a container," he said.

Christopher Taylor, chairman of James Robinson Fibres, said he had travelled from his Bradford headquarters this week to find out why his company was short of some raw materials.

"We'd normally get a container within five days of a ship docking, but it can take another 10 to 12 days to get a box out of there now," he said. "We're now telling suppliers in the Far East to send to Southampton not Felixstowe."

"It's always been inefficient, but at the moment it's terrible," he added. "In 50 years of working I've never had to go down, but it's so chronic down there [in Felixstowe] I felt I had to do something."

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Boxed in: businesses say delays at the port are creating extra costs

NATIONAL

Manchester united behind mayor’s bid to defy restrictions

City backs Burnham as tier 3 talks with government end in stalemate

ANDY BOUNDS — MANCHESTER

When Greater Manchester’s Labour mayor Andy Burnham used a press conference last Thursday to denounce government pressure to agree to tighter coronavirus restrictions, passers-by broke into spontaneous applause.

His rallying cry in defence of northern England against a Conservative government in London was still echoing around St Peter’s Square in Manchester — the scene of the media briefing — yesterday as talks between Mr Burnham and communities secretary Robert Jenrick broke up without an agreement on the mayor’s conurbation entering so-called tier 3 restrictions.

“It is the first time in my life I have agreed with Andy Burnham,” said Richard Monkhouse, 74, a retired businessman. “I think there is very little understanding down in London about how things are here.”

Mr Burnham’s resistance is threatening to frustrate Boris Johnson’s efforts to tackle a surge in coronavirus cases across the UK that is most dramatic in northern England.

The prime minister wants Greater Manchester to follow Liverpool city region and Lancashire in accepting the “very high” alert level of restrictions under his new three tier system.

Tier 3 restrictions would shut all pubs that could not operate as restaurants and could close other businesses including betting shops, casinos and possibly gyms, plus ban households from meeting indoors and out.

Mr Burnham, a former health secretary in the last Labour government who was born in Liverpool, argues that introducing tougher restrictions in Greater Manchester will do little to cut Covid-19 cases and could throw tens of thousands of people out of work.

At the very least he wants more government money. Chancellor Rishi Sunak is offering to pay 67 per cent of the salaries of workers at businesses that are forced to close under tier 3 restrictions, but Mr Burnham wants the 80 per cent level provided under the original terms of the government’s furlough scheme.

Mr Burnham is backed by all 10 borough council leaders in Greater Manchester, most of the conurbation’s Conservative MPs, and much of the business community.

But the government has the power to impose tier 3 restrictions, and Mr Johnson has said he is ready to take this step, although he would like the support of local leaders to legitimise the measures and try to ensure public compliance.

Mr Johnson’s spokesman sought to increase the pres-

sure on Mr Burnham to agree by highlighting increasing demands on Greater Manchester’s hospitals.

The Treasury had earlier signalled it could provide Greater Manchester with as much as £50m in extra support for the area’s businesses.

But Mr Burnham sounded defiant, saying he was defending the lowest paid. “This is about what’s right and fair for those people,” he added. “I’m not going to be pressurised into it. I’m not going to roll over at the sight of a cheque.”

Companies in the area are now running out of cash, said Chris Fletcher of the chamber of commerce. “There is long-lasting damage being done to the economy,” he added.

David Fox, co-founder of Tampopo, a small chain of Asian fusion eateries in Manchester and London, said the business was losing money because customers were spooked by the prospect of new restrictions.

His main restaurant in Manchester’s Albert Square had takings of £1,100 on Saturday, compared to £4,800 on the equivalent day last year.

Mr Fox has so far kept all 150 staff on but is now having to reconsider, and said he would support a more generous furlough scheme by paying more tax in future. “Before this I was paying on average £100,000 a month to the exchequer,” he added. “The government has and always will be the biggest beneficiary of my being in business.”

At the Eagle Inn, a 170-year-old red brick pub on the edge of Manchester city centre, landlady Esther Maylor was busy turning it into a restaurant so she can stay open if the area enters tier 3 restrictions. “You have to adapt to survive,” she said.

Ms Maylor has already had to shut three days a week because of fewer customers, as well as cancel live events because they are not allowed.

Tom Bloxham, the Manchester property developer who did much during the 1980s to transform a dreary city centre into a vibrant place to live and work, said he feared the clock could be turned back by tougher restrictions.

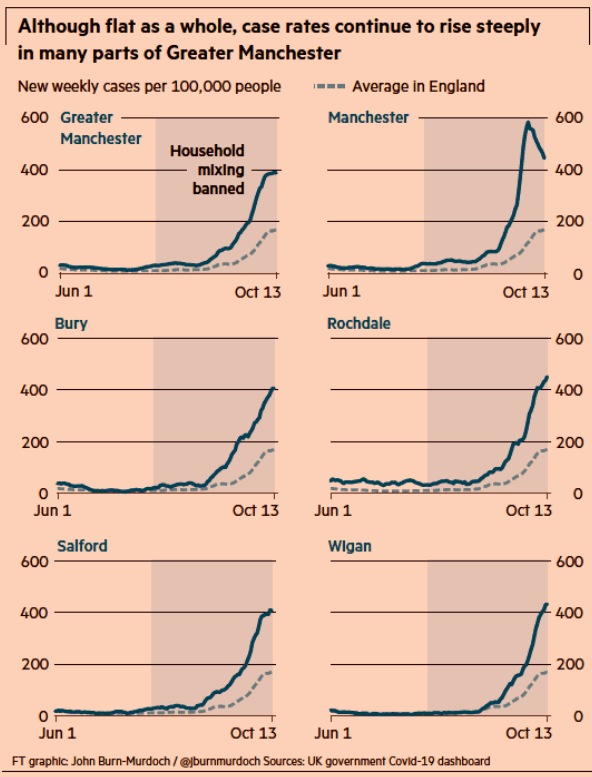
“You need the independent restaurants and bars,” he added. “We could lose that vibrancy. People in Manchester are proud their leaders are sticking up for them.”

Saghir Ahmed, a taxi driver waiting outside Victoria station in Manchester for fares, said he had had two passengers all morning. “I agree with Andy Burnham,” he added. “If they shut the pubs I am finished.”

Molly Bennett, 26, who lost her job during the national lockdown introduced in March, said Mr Burnham was “doing the right thing” but it was now time for compromise. “We need to keep hospital admissions down,” she added.



Seeing red: property developer Tom Bloxham fears for the city’s vibrancy while landlady Esther Maylor, below, says she must adapt to survive — Jon Super/FT



Transport

Minister sets December 1 target for faster airport testing

GEORGE STEER

Transport secretary Grant Shapps has set a target of December 1 to have in place faster privately manufactured coronavirus tests that could halve quarantine times for overseas airline passengers arriving in the UK.

The new “test and release” system could shorten to seven days the two-week quarantine currently imposed on people arriving from foreign countries with high rates of Covid-19 infection.

“My ministerial colleagues and I have agreed a regime based on a single test provided by the private sector and at the cost of the passenger after a period of self-isolation,” Mr Shapps said at an airline conference. The testing capacity of the NHS would not be hit, he added.

“Public Health England will set the quality for the test itself and then it will be up to the private sector to provide a test up to that quality,” he added.

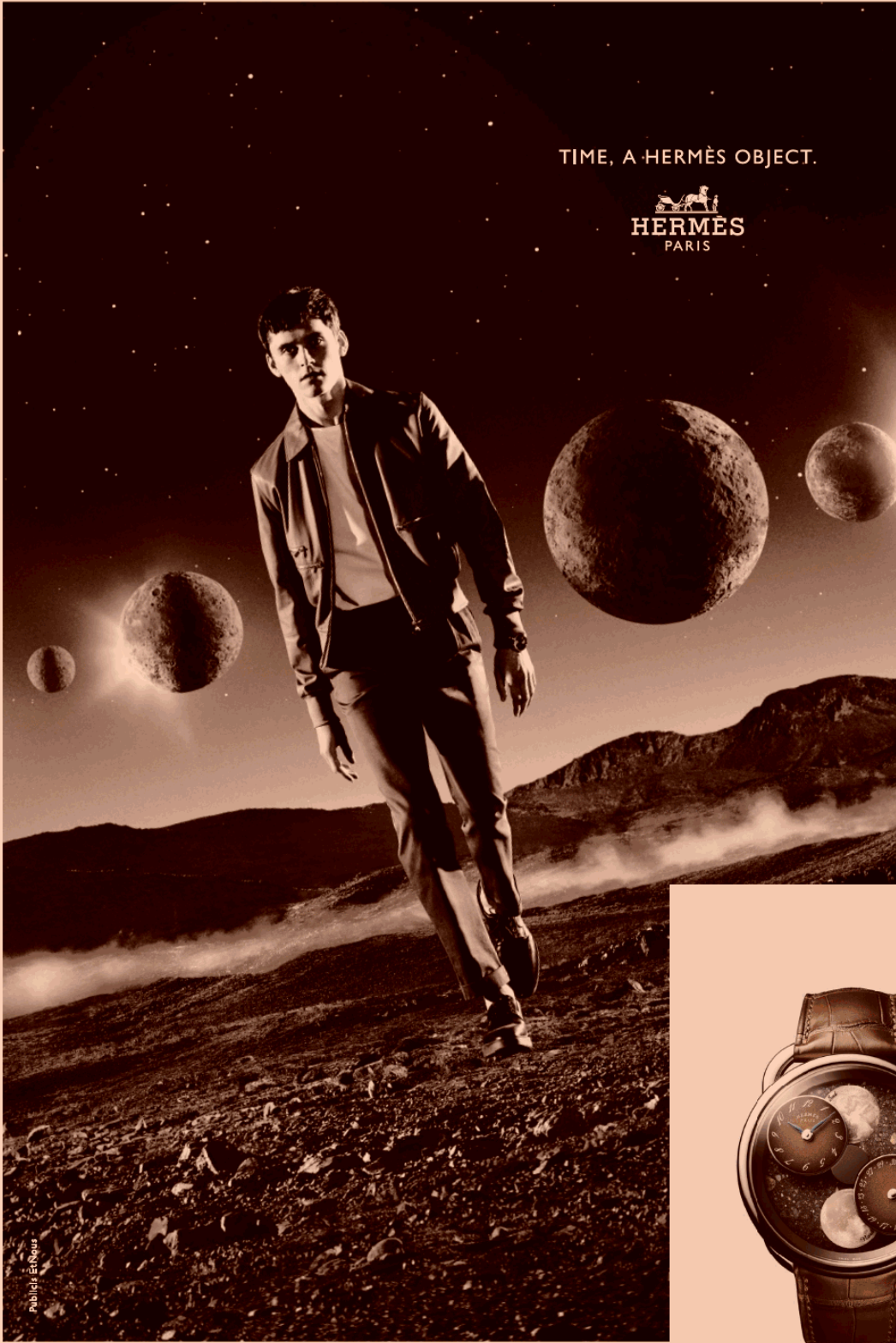
It is unclear whether arrivals would receive a testing kit in the airport to

administer at home themselves or have to return to the airport to be tested.

Industry figures said it had yet to be decided whether the tests, which could cost up to £150, would be offered to all arrivals or just those coming from countries without a travel corridor with the UK. The travel industry has previously called for pre-departure testing or testing upon arrival to remove the need for quarantine altogether.

Aircraft passenger numbers have plummeted since the start of the year as pandemic restrictions have grounded flights globally. An aviation recovery plan detailing measures to help the stricken industry is due to be published later this autumn, Mr Shapps added.

Any help was unlikely to be on the same scale as the billions of euros offered by France and Germany for their domestic aviation industries. He said: “We don’t take, I’m afraid, the view of other countries of just having endless amounts of taxpayers’ money going into unreformed industries.”



Arceau, L’heure de la lune
Time flies to the moon.



INTERNATIONAL

Pandemic support

Claims flood in for Spain's income guarantee

Government anti-poverty measure attracts more than 1m applications

DANIEL DOMBEY — MADRID

Spain's flagship anti-poverty provision has caused a deluge of benefit claims and a months-long delay in payments, fuelling a heated political debate about its implementation.

The authorities have received more than 1m applications for support under the new minimum income guarantee since its inception four months ago, leaving officials struggling to keep up.

At present, only half of the requests have been processed, with a total of about 136,000 households due to

receive the benefit in coming days, according to the government. Officials had expected that 850,000 households would qualify for the minimum income guarantee.

Spain's opposition People's party, which voted with the government in June to pass the guarantee into law, has denounced the administrative "chaos", which it says has punished "thousands of particularly vulnerable families".

The centre-right PP says the processing glut has slowed the payment of other benefits, but the government has argued that any delay in paying benefits has been limited and is primarily the result of the pandemic.

José Luis Escrivá, the social security minister who championed the minimum income guarantee and pushed it

through, said the public response showed the need for the new measure, and that a "massive effort" by officials and new technology was allowing the

'In the first month-and-a-half we had as many requests as pension applications we receive each year'

government to speed up the processing of claims.

"In just the first month-and-a-half we received as many [minimum income guarantee] requests as the number of pension applications we receive each year," he said.

The measure, introduced in June, is

designed to help the country's 2.3m poorest by ensuring a household income from €461 to €1,015. The administration of the guarantee is complex, with 14 categories for top-up payments for households, depending on the number of adults and children in each.

Although the guarantee was already part of the coalition agreement between the Socialist party and the radical-left Podemos grouping, which together make up the minority government, it gained new urgency this year with the pandemic hitting the country hardest in Europe.

The government expects output to fall 11.2 per cent this year, while the IMF puts the decline at 12.8 per cent.

In light of the severity of the economic crisis, the government had discussed

whether to put in place short-term poverty relief measures, but ultimately decided to accelerate introducing the minimum income guarantee.

Mr Escrivá's ministry said that about 160,000 requests are pending, because of problems such as a need for further documentation, while 192,000 have been refused, primarily because people's wealth or income was more than the thresholds to qualify as a recipient.

Overall, about 975,000 applications have been received, excluding more than 40,000 that had been submitted twice or were not completed, of which about 488,000 have been processed.

Mr Escrivá said the government would look in January at whether the rules for the guarantee needed to be changed.

Terrorism

Islamists held in police raids after death of teacher in France

VICTOR MALLET — PARIS

President Emmanuel Macron's government has launched a crackdown on Islamists in France after the decapitation of a history teacher by a Chechen Muslim refugee, questioning dozens of militants suspected of promoting violence and announcing plans to ban radical organisations.

"Islamists should not be able to sleep easy in our country," Mr Macron said after an emergency inner cabinet meeting at the Elysée Palace on Sunday with Jean Castex, the prime minister, and Jean-François Ricard, the anti-terrorism prosecutor. "Fear is going to change sides."

Gérald Darmanin, interior minister, said yesterday he would propose a ban on organisations deemed "separatist" for seeking to bypass the secular institutions of the French republic, including the Collective against Islamophobia in France, and BarakaCity, a humanitarian aid group.

"You can see how political Islam combines with radical Islam and so eventually leads to terrorism," Mr Darmanin said on Europe 1 radio. "We must fight political Islam with the same determination as we fight terrorism." He said 51 organisations would be inspected by the state this week.

Mr Macron, who had already announced tighter controls on Islamist radicals in a speech at the start of the month, is under pressure from politicians from left to right to take an even harder line against militants.

Even Jean-Luc Mélenchon, the head of the extreme-left La France Insoumise (France Unbowed) party, who has been criticised by the right as "Islamist-leftist", condemned "Islamist terrorism" and suggested targeting the Chechen immigrant community.

Politicians from the centre right and the far right spoke of "war" between Islamists and the state. Marine Le Pen, leader of the extreme right Rassemblement National, demanded "war legislation" against the "belligerent ideology" of Islamism.

French police have held 11 people — four of them relatives of the assassin — after the 18-year-old Abdoullakh Abouyezdovitch Anzorov used a knife to decapitate Samuel Paty, a teacher, outside the school where he had shown caricatures of the Prophet Mohammed to pupils in a lesson about freedom of speech. Investigators are seeking to find out how Anzorov, who was shot dead by police, was motivated to carry out the murder, and what role was played by social media groups such as Facebook and Twitter.

Brahim Chnina, the Muslim father of a pupil at the school in Conflans-Sainte-Honorine, near Paris, complained to the headmaster after the freedom-of-speech lesson and posted three videos calling for action against Mr Paty.

In the third video, and on his visit to the school, Mr Chnina was accompanied by Abdelhakim Sefrioui, an Islamist militant categorised by the French intelligence services as "s", which means he is regarded as a potential security risk. Mr Darmanin said Mr Sefrioui had "clearly issued a fatwa" against Paty. Mr Chnina and Mr Sefrioui are among the 11 people arrested.

Coronavirus. Second wave

Central Europe struggles with doctor shortage

Newly qualified staff leave in droves each year for better pay and conditions abroad

VALERIE HOPKINS — BUDAPEST
JAMES SHOTTER AND AGATA MAJOS
WARSAW

When Imre Varju graduated from Hungary's Semmelweis University in 2011 and qualified as a medical doctor, his starting salary would have been the equivalent of about €300 a month, a pittance after six years of study. Dr Varju chose to pursue a PhD, while almost half his classmates emigrated, mostly to Germany and Austria.

"They are now only a 10-hour car drive or a two-hour plane ride away, and they can earn up to eight times as much ... with a huge difference in the quality of life they can have for themselves," said Dr Varju, now a lecturer.

As a second wave of the coronavirus pandemic sweeps through central Europe, many in the region fear the lack of medical staff — the result of years of underfunding and emigration — will add to pressure on health services.

Milan Kubek, head of the Czech Medical Chamber, appealed last week to Czech doctors working abroad to return home to help with a surge in cases. Meanwhile, Hungary has approved a large pay rise for doctors.

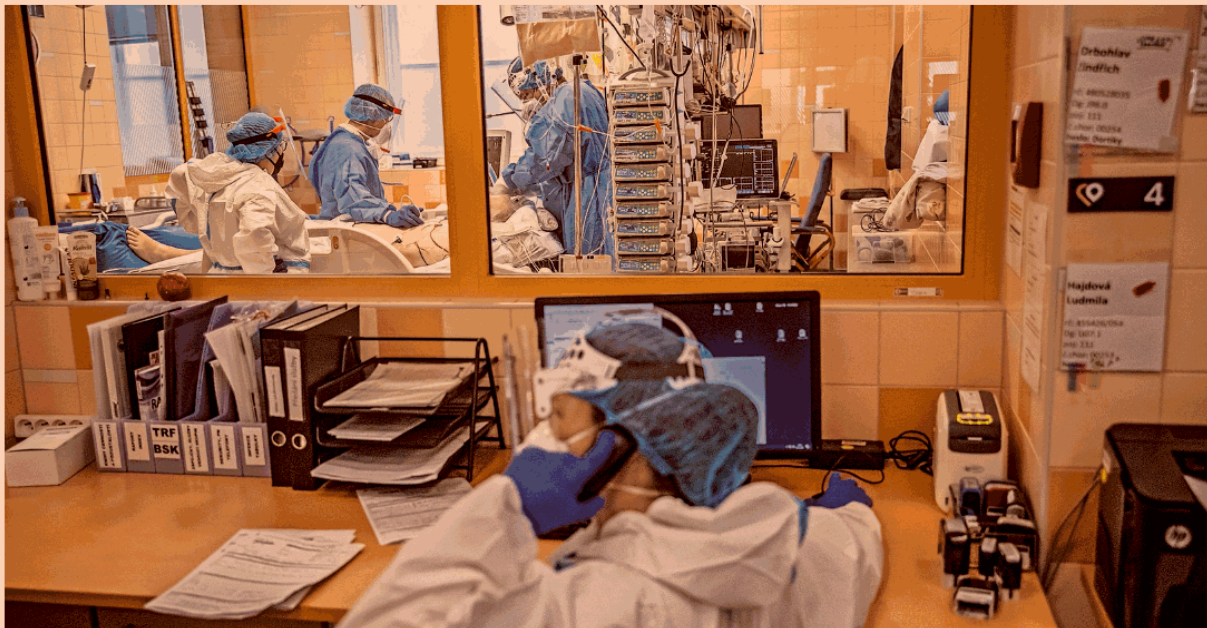
Staffing problems could be more critical than equipment shortages. In the first months of the pandemic, the Hungarian government ordered 16,000 ventilators, said Peter Almos, vice-president of the Hungarian Chamber of Doctors. But with only 2,000 intensive care doctors and the same number of nurses, it lacked enough staff to operate them.

"Ventilators you can buy easily with money, but doctors you can't," he said.

For decades, medical staff have been leaving central Europe in droves, an exodus made easier after 2004 when 10 central and eastern European countries joined the EU. In Hungary, for instance, 1,200 doctors qualify each year. But 900 emigrated in 2018.

In Slovakia, according to President Zuzana Čaputová, shortages are compounded by many of the country's doctors being in an age range that makes them vulnerable to Covid-19.

The Czech Republic has similar prob-



Under pressure: medical staff attend to a Covid-19 patient in intensive care at the General University Hospital in Prague yesterday — Martin Divisek/EPA-EFE/Shutterstock

lems. Mr Kubek said that the number of infected medical workers could rise from 5,500 to 40,000 within a month.

"That would be a disaster that would really mean a collapse for healthcare," he told the Czech website idnes.cz.

But Mr Almos said the problem in Hungary was that doctors in their 40s and 50s, who had the most experience and could train their colleagues, were missing. "They leave the country and don't come back," he said. Those left are newly qualified or older doctors.

Many of those emigrating complain about the low salaries and poor working conditions at home. "At the moment resident doctors make €3 per hour after taxes, or €6 as a specialist," said Mr Almos. "If you work in Tesco [in Hungary] as a cashier you can earn more."

According to Eurostat, the EU statistics agency, Poland has the lowest number of practising physicians in the EU, with 238 per 100,000 people, while Romania has 304, Hungary 338 and Slovakia 352. By comparison, Austria has 524 and Germany 431.

Filip, an anaesthetist who moved from Poland to the German city of Dort-

mund with his wife, who is also a doctor, said they decided to make the switch after working in a German hospital during their studies.

"The more time we spent in hospitals [in Poland] the more we saw how badly they functioned, how unhappy doctors were. Then we did a three-months Erasmus internship in a German hospital and we saw how big the difference was, most of all in the organisation of work. [In Germany] the doctor deals with medical procedures, much less with bureaucracy and paperwork," he said.

Romania has lost one-third of its home-trained doctors, according to the OECD. Clotilde Armand, a French-born Romanian MEP, said the emigration was a loss for medical services but also a lost investment — on average, it costs €100,000 to train a doctor in the region. Ms Armand has called for a medical works compensation fund into which countries that heavily recruit medical professionals could pay.

"In eastern Europe everybody wants free circulation of people — they suffered so much [under the closed borders of communism]," she said. "But we,

'Resident doctors make €3 per hour ... If you work in Tesco as a cashier you can earn more'

as responsible politicians, have to understand the economics behind it."

Hungary is trying to remedy the shortage with pay rises. Parliament adopted a law raising doctors' salaries by up to 120 per cent, the biggest increase since 1990. The new rate, which will put wages at about half of what an equivalent doctor in Austria would earn, were approved alongside other reforms, including a ban on accepting extra cash from patients.

Mr Almos said the rise was in line with his organisation's demands, but he warned other conditions in the law could worsen the brain drain. Many doctors hold down multiple jobs, and a new condition would require approval to do so from a government body. Most worrisome was a clause to allow mandatory relocation to any hospital in Hungary for up to two years.

"If the law would state that you can be ordered in case of medical emergency, that's one thing ... but it seems that the chronic shortage of doctors would be treated this way, which is unacceptable and doctors will leave," Mr Almos added.

Regional tension

Turkey-backed rightwinger wins northern Cyprus poll

LAURA PITEL — ANKARA

A hardline rightwinger backed by Turkey has been elected as president of northern Cyprus, casting uncertainty over efforts to reunite the divided island and resolve a mounting regional dispute about gas.

Ersin Tatar, who before the vote served as prime minister of the self-declared state, beat his leftwing rival Mustafa Akinci, the incumbent, according to unofficial preliminary results. Mr Tatar, 60, secured 51.7 per cent of the vote.

While the government based in the Greek Cypriot south is viewed by the international community as the legitimate authority for the whole of Cyprus, the island has been divided since Turkey invaded the northern part in 1974. The incursion was launched in the name of protecting the Turkish Cypriot minority after a Greek-backed coup.

Internationally-backed efforts to reunite the island have repeatedly failed, with the last round of talks collapsing in 2017. UN secretary-general António

Guterres had indicated prior to Sunday's vote that he would seek to restart informal talks in its aftermath.

But Mr Tatar supports a two-state solution in Cyprus rather than the federal, power-sharing model that has previously been endorsed by the Turkish Cypriot and Greek Cypriot sides as well as by the international community.

"Tatar overtly rejected that model," said Erol Kaymak, a professor of political science and international relations at Cyprus's Eastern Mediterranean University. "The Turkish side is going to come to the negotiating table effectively rejecting Guterres's own framework."

The long-running dispute has become part of an escalating regional conflict over hydrocarbon reserves in the eastern Mediterranean that has pitted Greece, Cyprus, Israel, France and the EU against Turkey and northern Cyprus.

Turkey's president Recep Tayyip Erdogan has sent drilling ships and naval vessels to search for gas in areas claimed by Cyprus.

Asla

Doubts cast on India's official view that virus has peaked

AMY KAZMIN — NEW DELHI

An Indian government panel of experts says the country's rampant coronavirus pandemic may have peaked and could be under control by February.

But independent analysts are sceptical that the worst is over in a nation that has reported more new infections than any other since the middle of August.

The virus has had a devastating effect on the Indian economy, which is forecast to contract about 10 per cent while most schools have been shut since March. Daily new cases, however, have fallen about 33 per cent since mid-September, tumbling from a peak of an average of 93,000 a day to last week's average of 63,025.

The panel also concluded that Prime Minister Narendra Modi's strict lockdown had helped flatten the curve and delay the peak by months, giving the health system more time to prepare.

But outside experts said the forecast, which reported infections might not exceed 10.6m, was undermined by stud-

ies showing the pathogen had infected far more than officially acknowledged.

"How can anybody say we have peaked?" asked Rijo John, a health economist at the Indian Institute of Management Kozhikode. "Maybe we have peaked for the time being, but how can anybody with any confidence say we are not going to see further surges ahead?"

"The so-called threshold of herd immunity is nowhere near," he added. "If you really see a fall in numbers after 30 to 40 per cent of the population has been impacted, that is more credible. That really looks like a peak. We are very far from that."

India has reported 7.5m infections, the most after the US, and more than 114,600 deaths. Epidemiologists, however, said this significantly understated the true spread and toll of the virus.

The Indian Council of Medical Research seroprevalence studies — identifying people with antibodies indicating exposure to the virus — estimated 6.6 per cent of India's 1.4bn people had been infected as of August.

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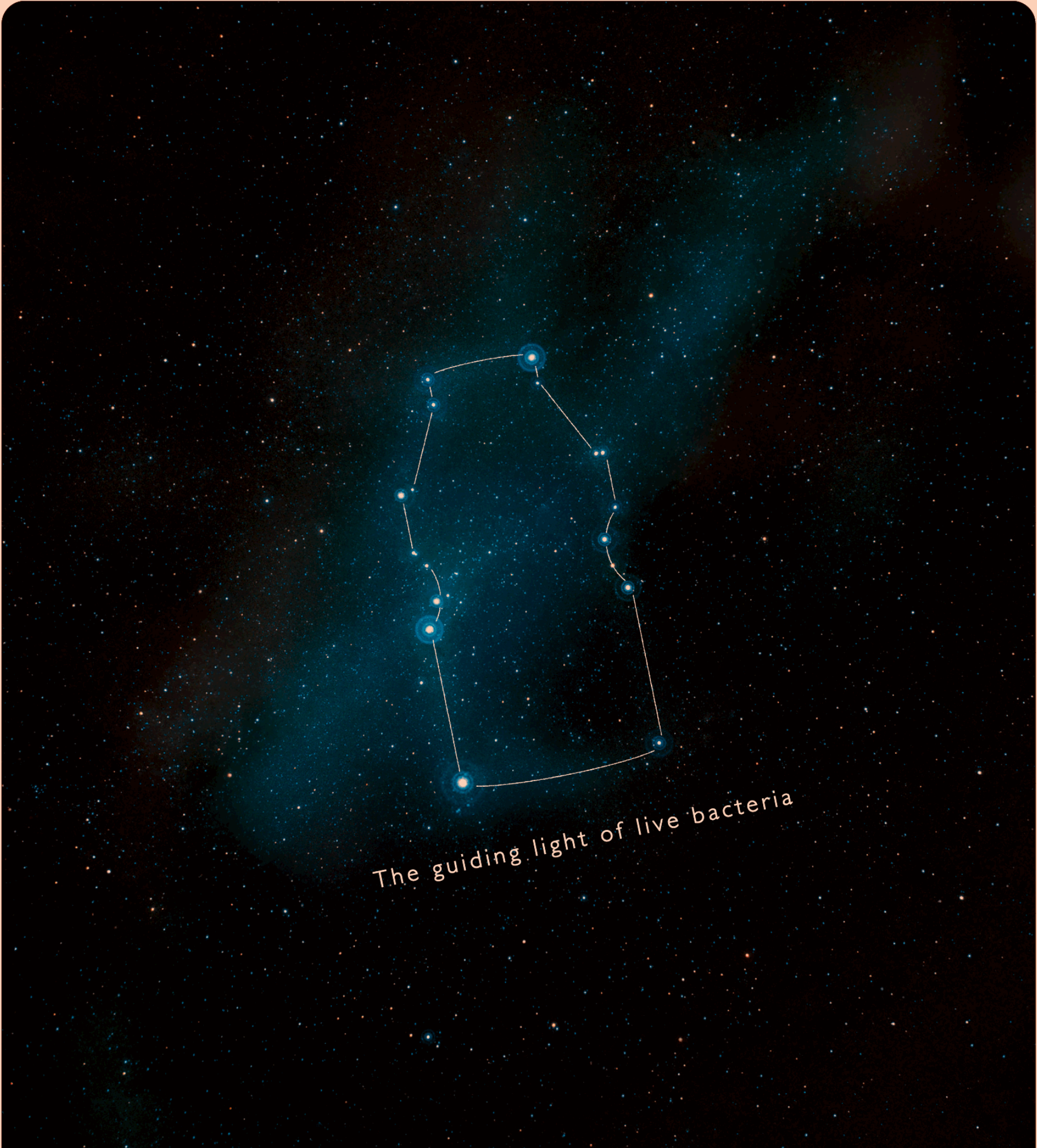
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INTERNATIONAL

6.9%
Rise in China's industrial production in September — the highest level this year and the same rate as in December before the pandemic

3.3%
Increase in retail sales in the same month. In August, retail sales were 0.5 per cent higher, after seven straight months of decline

2%
The central bank's prediction for China's full-year growth. It is expected to be the only main economy to record growth this year

Flying high:
an advert outside a shopping mall in Beijing
Andy Wong/AP



Industrial growth powers China's recovery from pandemic

Economy expands 4.9% in third quarter as recorded virus cases remain low

THOMAS HALE — HONG KONG
TOM MITCHELL — SINGAPORE
CHRISTIAN SHEPHERD AND
EMMA ZHOU — BEIJING

China's economy expanded 4.9 per cent year on year in the third quarter as industrial growth powered the country's recovery from the coronavirus pandemic.

The expansion in gross domestic product missed expectations but was well ahead of a 3.2 per cent increase in the second quarter and represented a sharp turnaround from a historic decline at the start of the year.

The recovery in the world's second-largest economy, which has been stoked by a state-backed industrial boom, now shows signs of extending to consumption at a time when global growth remains under severe pressure.

Industrial production in China leapt 6.9 per cent in September — its highest level this year and the same rate as in December before the coronavirus outbreak. Retail sales, which lagged behind the wider recovery, also recorded their best performance this year, beating expectations to rise 3.3 per cent last month. In August, retail sales added 0.5 per cent after seven straight months of decline.

Chaoping Zhu, global market strategist at JPMorgan Asset Management, said "domestic economic activities are expected to further normalise in the upcoming quarters".

He added: "When consumers' confidence improves, consumption might take over investment to become the major contributor to domestic demand."

China has benefited from its containment of the pandemic, with new recorded cases remaining low over recent months as other big economies grapple with new waves of infection.

With industrial production now growing at a faster rate than in much of 2019, the country's overall rate of growth is moving towards the 6 per cent level China recorded in the third quarter last year, before the pandemic.

"China is likely to be the sole major economy in the world to register positive growth this year," said Eswar Prasad, a China finance expert at Cornell University. "Short-term growth appears reasonably secure . . . The challenge now is to rebuild business and consumer confidence to revive private investment and maintain strong household consumption growth."

The IMF expects global growth to be negative this year and the worst since

the Great Depression in the 1930s. Economists have warned that Europe could face a double-dip recession as the region faces a sharp uptick in cases.

Yi Gang, China's central bank governor, said at the weekend the country's full-year growth figure was likely to come in at about 2 per cent. "The Chinese economy remains resilient with great potential," he was quoted as saying. "China's continued recovery will benefit the world."

Louis Kuijs, chief Asia economist at analyst Oxford Economics, said he had downgraded his full-year projection for Chinese growth to 2 per cent from 2.3 per cent, but still expects year-on-year expansion to rebound 7.6 per cent in 2021.

China's industrial growth and a rise in construction has generated huge appetite for commodities in China, which imported more goods than in any month on record in September. Property investment has grown 5.6 per cent in the year to date.

'China is likely to be the sole major economy in the world to register positive growth this year'

Exports have risen for each of the past four months, adding 10 per cent last month, their fastest increase in 2020. Earlier this year, China's share of global exports rose to its highest level on record, according to Oxford Economics.

"Despite the global second waves and still contracting global demand, it looks like Chinese exports have been outperforming . . . if anything China is probably still taking market share from others," said Hongbin Qu, co-head of Asia economic research at HSBC. He also pointed to signs of private consumption "gradually catching up".

While stock and property markets have boomed through the recovery, consumers have remained cautious because of uncertainty over the longer-term impact of the pandemic. The unemployment rate was 5.4 per cent.

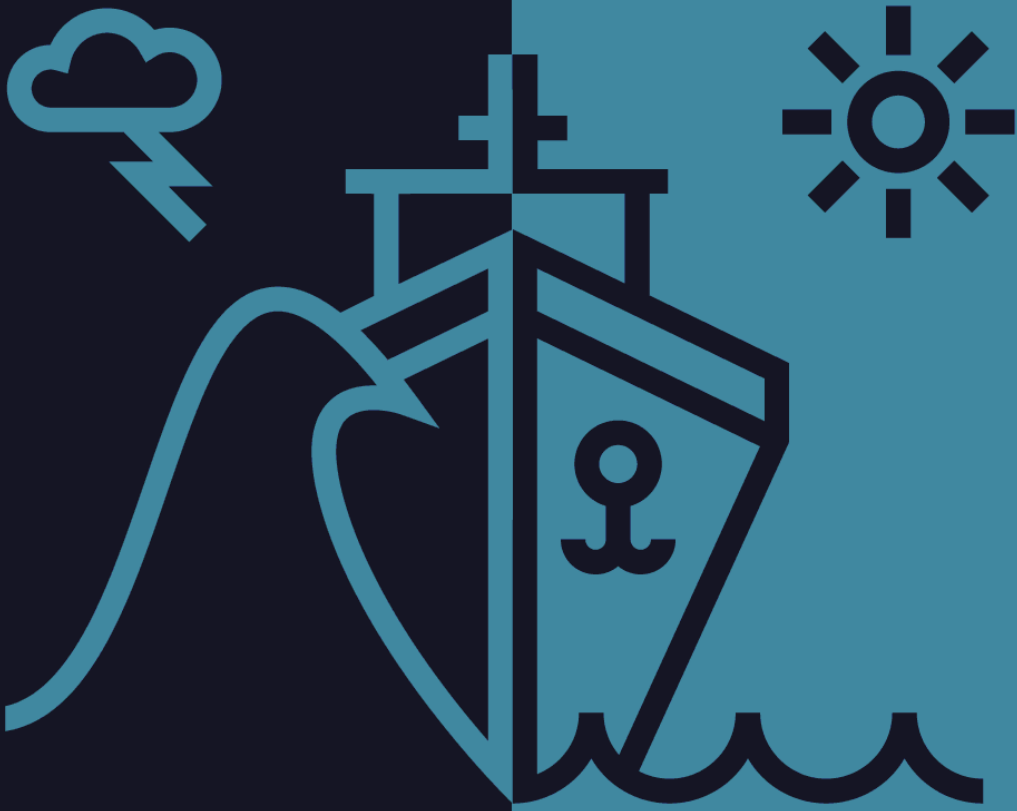
"At present, consumer demand is picking up, but it is still recovering at a low level," said Liu Aihua at the National Bureau of Statistics.

"We must continue to expand domestic demand, increase residents' income and improve the consumption environment."

Additional reporting by Daniel Shane in Hong Kong

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'Wolf warrior' politics

Taiwan says Beijing officials beat up its diplomat in Fiji

KATHRIN HILLE — TAIPEI

Taiwan has accused two Chinese officials of beating up one of its diplomats in Fiji after they gatecrashed a reception for its national day and harassed international guests.

The incident is the most extreme example yet of China's "wolf warrior" diplomacy, a term used to describe the use of intimidation in place of the conventional tools of statecraft. In recent years, Chinese diplomats have issued threats, made demands and lectured their host countries. But the violence reported to have taken place in Suva, Fiji's capital, has not been seen from Chinese officials abroad in half a century.

Taiwan's representative office in Fiji held a national day reception on October 8 at which "two staff members of the Chinese embassy in Fiji tried to force themselves into the venue and take pictures of the guests", said Taiwan's foreign ministry. "When staff from our office asked them to stop, a violent confrontation ensued which ended with a member of our staff suffering a head injury and being sent to the hospital."

The foreign ministry said Fijian police forcibly removed the two diplomats. It added that they "falsely claimed that they had been attacked by our people".

Taipei said it was pushing for a criminal investigation and would seek police protection for future events.

China's embassy in Fiji disputed the account, claiming Taiwanese officials

had "acted provocatively against the Chinese Embassy staff who were carrying out their official duties" and had caused "injuries and damage to one Chinese diplomat". The embassy claimed that the Taiwanese reception violated "the one-China principle and the relevant rules and regulations of the Fijian government".

China, which claims Taiwan as part of its territory and threatens to annex it if Taipei resists unification indefinitely, has increased political and military pressure on the country since Tsai Ing-wen was elected president in 2016.

Analysts said the events in Suva demonstrated how the aggressive rhetoric was disrupting traditional norms in the workings of China's foreign ministry.

"The incident expresses the current state of ministry politics in the PRC system," said Mark Harrison, a lecturer in Chinese studies at the University of Tasmania. "That it has only occurred in Suva indicates that it is just inappropriate local behaviour and not co-ordinated policy."

Fiji's relations with China have been close since 2006, when Beijing backed Frank Bainimarama after he took power in a military coup.

China frequently has its embassies work to limit Taiwanese diplomats' space for interaction abroad. Last week, the Chinese embassy in India protested at the airing of an interview with Taiwan's foreign minister on local TV.

Gideon Rachman page 19

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INTERNATIONAL



Thai protests
Police target
media sites

Onlookers cheer pro-democracy demonstrators in Bangkok yesterday — Jack Taylor/AFP/Getty

Thai police have opened an inquiry against four media sites and the Facebook page of a pro-democracy youth group in an attempt to suppress news about a protest movement that appears to be growing stronger despite a five-day government crackdown. Police yesterday said they were taking action to stop the publication of “distorted information” that was being “disseminated to cause confusion”, in a move condemned by media groups. In recent days, many Thais have

joined the encrypted messaging app Telegram in anticipation of a shutdown of media groups and outlets through which they share information and news about the protests. Organisers were calling for further protests yesterday in Bangkok and other cities. On Sunday, thousands of protesters gathered in the capital and other cities, in what has become a daily event since authorities declared a state of emergency last week. The three-month-old movement is

calling for the resignation of former coup leader Prayuth Chan-ocha’s government, a new constitution to replace Thailand’s military-drafted charter and limits on King Maha Vajiralongkorn’s wealth and power. An “urgent” emergency decree announced by government last week banned meetings of more than four people and allowed authorities to hold suspects for up to 30 days without being charged. *John Reed, Bangkok*

Global survey

Billions at risk
of pandemic
squeeze on
retirement pots

Workers face increased retirement age or having less income in later life

JOSEPHINE CUMBO

The economic crisis triggered by the pandemic has heightened retirement insecurity for billions worldwide who now face working longer, or having less income in later life, an analysis of global pension systems has found. Even before the crisis, private and public retirement systems were under strain from ageing populations and a low-interest rate environment, which has made it tougher to achieve the investment returns to pay pensions. Now, the pandemic has exacerbated the problem and increased the need for governments to make “politically challenging” reforms to keep their systems sustainable, including raising the retirement age, according to the global study. “The economic recession caused by the global health crisis has led to reduced pension contributions, lower returns and higher government debt in most countries,” said Dr David Knox, senior partner at Mercer, the actuarial firm, and lead author of the Global Pension Index study. “Inevitably this will impact future pensions, meaning some people will have to work longer, while others have to settle for a lower standard of living in retirement.” The analysis yesterday compared the retirement systems of 39 countries covering two-thirds of the world’s population, and ranked them on the basis of sustainability, coverage and adequacy. The study, published annually, said measures implemented by countries to provide short-term relief through the crisis are likely to have increased retirement insecurity for citizens. For example, in Australia, the US, Spain and Chile citizens were permitted to dip into their pensions early to help them through the crisis, which has caused mass job losses. This emergency intervention was most popular in Australia, where about 3m citizens, or nearly a quarter of the workforce, took advantage of a scheme which allowed them to release up to

\$20,000 from their superannuation pots, with about A\$33bn (\$23bn) accessed in a five-month period, mostly by the young. In June, the OECD, the club of advanced economies, warned withdrawing assets from retirement plans early should be a “measure of last resort”. The analysis noted some governments had also allowed savers and employers to reduce compulsory pension contribution rates, to ease pressures for households and individuals facing a cash crunch during the crisis. For example, in Indonesia the social security contribution rate was cut from 2 per cent to 0.2 per cent from May to July and in Thailand the 5 per cent contribution required from both employers and employees went to 4 per cent and 1 per cent respectively for three months. “These developments will likely have a material impact on the adequacy, sustainability and integrity of pension systems, thereby influencing the evolution of the Global Pension Index in the coming years,” said Professor Deep Kapur, director of Monash Centre for Financial Studies, which took part in the analysis. The report noted that the top two retirement income systems in the index, the Netherlands and Denmark, had not allowed their citizens to access their pension benefits, even though the assets of each pension system were more than 150 per cent of the country’s gross domestic product. The analysis warned governments would have scant room for manoeuvre to support their older populations, either through pensions or provision of other services, such as healthcare, because of Covid-19-related debt. “The significant growth in government debt during 2020 will, at some future date, affect the ability to pay benefits from pay-as-you-go systems and provide ‘social protection’ programmes,” said the report. It urged governments to improve retirement income provision, with measures such as boosting saving among the self-employed and raising state pension ages and/or retirement ages to reflect rising life expectancy to reduce the costs of publicly financed pension benefits.

HOW IS THE
U.S. ECONOMY
INFLUENCING
THE ELECTION?

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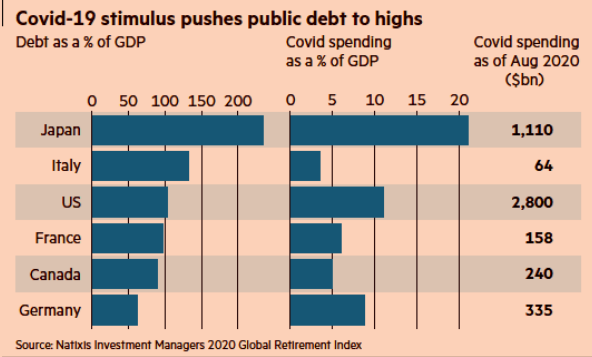
Do Americans feel like they are better off than they were four years ago? Our next event, held in association with the Peter G. Peterson Foundation, co-sponsor of the monthly FT-Peterson poll, will offer an analysis of U.S. voter sentiment towards the economy and how the country’s fiscal and economic outlook has been impacted by the pandemic just days before the election.

Monday, 26 October, 12-1pm ET

Michael Peterson, chairman and CEO, Peterson G. Foundation
Peter Spiegel, FT US managing editor

In conversation with
Lauren Fedor, FT Washington correspondent

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Source: Natixis Investment Managers 2020 Global Retirement Index

Latin America

Poll win for Bolivia’s socialists
makes Morales return likely

GIDEON LONG IN BOGOTÁ

Bolivia’s socialists have claimed victory in presidential elections, paving the way for five more years of leftwing rule and raising the prospect that Evo Morales, the former leader, will return from exile in Argentina.

With official results still trickling in, Carlos Mesa, the centrist candidate, conceded defeat yesterday to the Movement Towards Socialism, or MAS, saying: “It’s a result that we accept.” Jeanine Añez, interim president, congratulated Luis Arce, the socialist candidate, and David Choquehuanca, his running mate. “[I] ask them to govern with . . . democracy in mind,” she said. Mr Arce tweeted his thanks to Bolivians, saying: “We have recovered democracy and we will regain stability and social peace.” In Buenos Aires, where he has been since an aborted election last year, Mr Morales said the MAS had “recovered the homeland”. By yesterday morning, only about 15 per cent of the votes had been tallied, but two exit polls suggested the socialists had taken more than 50 per cent, enough to avoid a second round next

month. The polls showed the MAS had won in five of nine provinces and taken well over 60 per cent in La Paz and highland areas of Oruro and Cochabamba. The victory is a stunning comeback for a movement that a year ago looked dead. To some extent, the vote was a referendum on Mr Morales’ 14 years in power, which were marked by political stability and brisk economic growth but also increasingly authoritarian rule. Mr Morales is likely to return to Bolivia, where he could face court hearings related to violence after last year’s poll and allegations of rape. Leftists across Latin America, including Nicolás Maduro, Venezuela’s president, hailed the result, but analysts said Mr Arce could face a testing time. “Bolivia is facing structural economic challenges Arce will have to confront,” said Rodrigo Ríaza of the Economist Intelligence Unit. “Unpopular choices, like fiscal consolidation or a devaluation, could trigger mass protests.” “Arce has distanced himself from Morales in recent weeks,” Mr Ríaza said. “Looking ahead, internal divisions within the MAS could arise, especially on delicate economic policy issues.”

INTERNATIONAL

Middle East. Regional role

Oil price drop and virus test neutral Oman

Economic pressures push close western ally to ask richer neighbours for help

SIMEON KERR — DUBAI

Sandwiched between Saudi Arabia and Iran, Oman has long prized its neutrality, garnering a reputation as the Middle East's Switzerland.

But the Gulf state's ability to steer clear of regional power struggles has been put at risk by economic woes exacerbated by the pandemic and oil price plunge. The IMF forecasts an economic contraction of 10 per cent this year, far steeper than the regional average.

The crisis has been a baptism of fire for Sultan Haitham bin Tariq Al Said, who succeeded Qaboos bin Said Al Said in January after the death of the leader who shaped modern Oman during his half century on the throne.

As the 65-year-old former culture minister grapples with a ballooning budget deficit and rising debts, he has to decide whether to turn to wealthier neighbours for a bailout or try to balance the books through other means while maintaining social stability.

If the deteriorating conditions force him to take the former option, Oman risks being sucked into a dispute that pits Saudi Arabia and the United Arab Emirates against Qatar and undermines its role as a regional mediator.

"Given the fiscal burden, Oman will have to turn to its Gulf neighbours for direct or indirect fiscal support," said John Sfakianakis, a scholar at Cambridge university. "But . . . taking UAE money may jeopardise Oman's neutrality as it would align Muscat more closely with the Abu Dhabi-Riyadh alliance,"

he said. "The same applies for Qatar."

A western ally, Oman has long pursued a neutral foreign policy, maintaining good relations with Iran, Saudi Arabia's nemesis, while helping Qatar side-step the Riyadh-led trade embargo.

It hosted the secret talks that forged the 2015 Iran nuclear deal and Muscat's openness towards Tehran, to the chagrin of its Gulf neighbours, has made it a frequent stop in Saudi negotiations with Iran-allied Yemeni rebels. This month, it became the first Gulf state to return an ambassador to Damascus after maintaining diplomatic ties with the Syrian regime through the civil war.

UAE-Omani relations have long been fraught, not least because of the discovery of an alleged Emirati spy ring in the royal court a decade ago. Abu Dhabi is keen to pursue a better relationship with the new ruler, who is steering one of the Gulf's most fragile economies.

The sultanate's budget deficit is forecast to hit 20 per cent of gross domestic product this year after revenues tumbled. With modest hydrocarbon resources, Oman has about \$16bn in foreign exchange reserves and \$16bn in readily available overseas assets, but the fiscal shortfall and maturing global bonds amount to more than \$13bn a year for the next three years.

The sultanate, which borrowed \$2bn from global banks in August, will need to draw down domestic deposits including from the sovereign wealth fund, asset sales and more loans to steady the budget. It is considering a return to bond markets to raise \$2bn-\$4bn.

"Even before coronavirus and the latest oil price shock, Oman was struggling to balance the books," said Krisjanis Krustins, director of sovereigns at Fitch, the rating agency. "But now they are in the position where they have to reduce



Tight spot: an IMF forecast of an economic contraction of 10 per cent this year has added to worries in Muscat, the Omani capital

Christopher Pike/Reuters



spending more radically or the money could run out."

Last year, the wealthier Gulf states provided a \$10bn package for Bahrain after it failed to raise more debt on international markets. So far, there have been talks about the potential for Emirati investment in Omani projects, rather than any financial deposit, said one western official.

Suspicion of the UAE runs deep among many Omanis and the leadership may balk at terms for support that might erode Muscat's independence. Bankers say there have been discreet talks about financial help with Qatar, which is keen to repay Oman for its support in beating the blockade.

China has expanded operations in Omani ports and last year bought a \$1bn stake in the electricity distribution network. In 2017, Chinese banks lent Oman \$3.5bn.

"Given deep economic ties, China might be a good opportunity, but the US

would likely have objections," said Jonathan Fulton, an assistant professor at Zayed University in Abu Dhabi.

Wherever he turns for help, the economic crisis is set to test public support for the sultan, who has revamped the bureaucracy and slashed public spending 8 per cent in the first half of the year, cutting outlays on big projects and defence while sustaining the public sector wage bill. The government this week announced plans to introduce a 5 per cent sales tax next year, a gamble that risks popular discontent.

A decade ago, Arab spring protests that swept Oman were subdued by Qaboos with ministerial sackings and government largesse. This time it may be more difficult. "Haitham has a lot of goodwill," said one Omani observer, but Mr Krustins said the potential for unrest had to be weighing on Muscat. "There is bound to be a bit of self-censorship in what the government is doing on fiscal reform," he added.

Hacking accusation

US charges six Russians with 'destructive' cyber attacks

KADHIM SHUBBER — WASHINGTON
HELEN WARRELL — LONDON

The US has charged six Russian military intelligence officers with hacking targets including Emmanuel Macron's political party, the International Olympic Committee and the UK government lab that investigated the poisoning of Sergei Skripal.

The indictment tied a string of cyber attacks that allegedly advanced Russian interests in multiple countries to a group of current and former Russian military officers who worked for the GRU, the country's spy agency.

The US Department of Justice said the alleged hackers were behind a 2015 and 2016 attack on Ukraine's energy grid, a 2017 "hack-and-leak" effort against En Marche!, the French president's party, and attacks on the 2018 Winter Olympics, from which Russia was banned.

The Russian officers were also allegedly responsible for the destructive 2017 malware NotPetya, the targeting of Georgia's parliament in 2019 and attacks on organisations that probed the 2018 poisoning of Mr Skripal in the UK, which has been attributed to Russia.

"No country has weaponised its cyber capabilities as maliciously or irresponsibly as Russia, wantonly causing unprecedented damage to pursue small tactical advantages and to satisfy fits of spite," said John Demers, the head of the justice department's national security division.

He said the six officers had conducted "the most disruptive and destructive series of computer attacks ever attributed to a single group, including by unleashing the NotPetya malware".

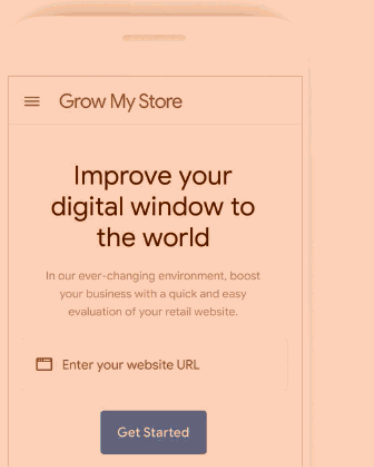
The UK yesterday formally accused Moscow of trying to hack the Tokyo Olympics and Paralympics, which had been planned for this summer. According to British officials, Russian hackers conducted "cyber reconnaissance" operations against organisers, logistics suppliers and sponsors of the games.



HeimatHund
Dog school and accessory store
Menden, Germany

Janine used Google's free digital tools to shift her sales online during lockdown.

Find free digital tools and training at g.co/growwithgoogle



Companies & Markets

Brussels and UK watchdogs battle over big mergers

- CMA keen to control telecoms deal
- Race to beat Brexit transition date

KATE BEIOLEY — LONDON
JAVIER ESPINOZA — BRUSSELS

The UK competition watchdog is tussling with Brussels for control of some of Europe’s biggest mergers ahead of the end-of-December deadline for a Brexit trade deal.

The Competition and Markets Authority has asked Brussels for full control of the £31bn planned merger between Virgin Media and telecoms operator O2 on the basis that it affects mainly UK customers.

British and EU regulators are also in tense discussions over which authority will have oversight of the \$30bn merger of Aon and Willis Towers Watson, said people briefed on the discussions. Regulators in the EU are

‘Even if the jurisdiction is with Brussels, the companies have a race against time’

very keen to keep the deal in Brussels, they said.

Both Brussels and the UK are anxious to establish control over the outcome of tie-ups that involve their citizens.

Until December 31, the European Commission will have control over deals with an EU dimension, including those that affect the UK. After that deadline passes the CMA becomes an independent regulator and takes over a chunk of those deals.

It expects a 40-50 per cent increase in workload in relation to mergers, and companies will also become subject to parallel UK-Brussels probes for the first time.

The UK can currently ask Brussels to review deals that have a large UK impact but if turnover is over a certain threshold, the European Commission retains

the final say over who determines its outcome.

Regulators in the UK and Brussels are also discussing who will come to gain complete or partial control of the scrutiny of Nvidia’s \$40bn purchase of Arm on the basis of where most of the turnover will be.

“Even if the jurisdiction is with Brussels, the companies have a race against time because unless they file before Christmas it comes to the CMA anyway,” a person who is involved in the discussions said.

“The next few months are going to be very complicated,” they added.

Companies are scrambling to notify Brussels of mergers before the December deadline.

Unless mergers are notified during the transition period, any UK turnover will be automatically deleted for the purpose of assessment and mergers will instantly fall into the CMA’s hands if they are below a certain value.

The tussle between regulators is not the only factor influencing who can launch probes of some of the largest European deals. Legal advisers are also looking to turn the system to their advantage.

In the first six months of the CMA’s financial year, five deals being investigated in depth have been blocked or abandoned — the same number as for the whole of 2019-20.

Several companies have since challenged those decisions claiming, among other things, that the CMA was unlawful in reviewing the deal in the first place.

“Don’t underestimate mischief on behalf of the parties involved,” said a person involved in the discussions. “They don’t want the CMA involved. The CMA has blocked a number of mergers and they know they will get proper scrutiny.”

Shale gamble Conoco eyes post-pandemic recovery as it seals \$9.7bn Concho deal



The move transforms Conoco’s Permian oilfield position — its output will rival ExxonMobil’s — Matthew Busch/Bloomberg

DEREK BROWER AND
MYLES MCCORMICK

ConocoPhillips is to buy Concho Resources in a deal worth \$9.7bn, as one of the largest independent oil producers gambles on a post-pandemic market recovery with a huge bet on US shale.

The deal will make Conoco a commanding participant in the US shale patch and transform its position in the Permian, the most prolific oilfield, where its output will rival that of ExxonMobil.

“Today’s transaction is an affirmation of our commitment to lead a structural change for our vital industry,” said Ryan Lance, Conoco chief executive. “Together, ConocoPhillips and Concho will have unmatched scale and quality across the important value drivers in our business.”

Under the all-share transaction, Concho investors will receive 1.46

shares of Conoco stock for each of their own, a 15 per cent premium to closing share prices on October 13. Conoco said the combined group would have an enterprise value of \$60bn. Concho chief executive Tim Leach would join the Conoco board.

The deal is the third big acquisition in the shale patch since the pandemic. Chevron agreed to buy Noble Energy in July in a \$13bn transaction, while Devon Energy last month agreed to take over rival WPX for \$12bn.

The Conoco deal follows months of brutal cost-cutting and bankruptcies in the US oil patch, where production has fallen from a record near 13m barrels a day to about 11m b/d.

Analysts said Conoco’s move showed that big oil groups were ready to use the crash, which has driven asset valuations to multiyear lows, to build scale in shale.

“ConocoPhillips is adding enough Permian production to nip at the

heels of ExxonMobil’s massive programme,” said Robert Clarke, an analyst at Wood Mackenzie.

Conoco said the combined companies would hold a resource base of 23bn barrels of oil equivalent with an average supply cost of less than \$30 a barrel, and would produce 1.5m barrels of oil and gas a day.

The group’s operations include assets in Australia, Asia-Pacific and Canada. Its production from the Permian shale in Texas and New Mexico was less than 100,000 b/d last year.

Concho produced just over 330,000 barrels of oil equivalent per day last year. In a sector that became notorious in recent years for its failure to generate profits or return capital, it was considered one of the better performers. Ian Nieboer, head of oil research at Enverus, said it offered “quality assets, sufficient scale and an inventory of rich areas to be drilled”.

Lex page 26

Beijing gives green light to HK part of Ant offering

PRIMROSE RIORDAN AND
HUDSON LOCKETT — HONG KONG

Ant Group has received approval from Chinese regulators for the Hong Kong leg of its \$30bn initial public offering, according to three people with direct knowledge of the matter, teeing up the world’s biggest stock market debut.

The three people said that Ant, the Chinese payments group controlled by Jack Ma, had been given clearance by the China Securities Regulatory Commission yesterday to proceed with the Hong Kong part of the IPO.

Ant is planning a dual listing in Shanghai and Hong Kong.

However, the company still needs approval from the Hong Kong stock exchange’s listing committee. Two of those people said the committee could hear Ant’s application today.

The CSRC and Ant did not respond immediately to requests for comment on the status of the company’s IPO. Hong Kong Exchanges and Clearing, the city’s bourse operator, also declined to comment.

Shares in Ant, which some analysts have valued at as much as \$318bn, could price ahead of the US presidential election on November 3, according to one of the people.

Bankers working with the company are eager for the IPO not to clash with the vote, which they view as a potential source of market uncertainty.

“During the election you have a lot of volatility,” one banker said.

The Shanghai Stock Exchange approved the listing of Ant shares on its technology-focused Star market last month.

The size of the Chinese group’s IPO is expected to exceed that of Saudi Aramco’s in 2019, which raised more than \$25bn.

Investors have been eager to secure shares in Ant, which has 711m monthly users, rapidly growing profits and funnelled about a 10th of all credit to Chinese consumers in the past year — more than any bank.

The approval from Chinese regulators could help reassure some concerns after Ant faced scrutiny over its decision to offer retail traders access to its share sale through an exclusive arrangement on its Alipay mobile payments app.

Additional reporting by Mercedes Ruehl in Singapore and Ryan McMorrow in Beijing

The debt bubble legacy of economists Modigliani and Miller

INSIDE BUSINESS FINANCE

Robin Wigglesworth



Half a century ago, two starlets of economics argued that whether companies funded themselves with debt or equity was irrelevant. One legacy of that insight is becoming clearer in the wreckage of corporate failures mounting in the wake of the pandemic.

Franco Modigliani and Merton Miller both later won the Nobel Prize in economics, partly thanks to their groundbreaking work on what became known as the “M & M theorem”. Until then most companies had assumed that too much debt would affect the value of the firm, so their paper was a counterintuitive bombshell.

Their initial findings only held in a world without “frictions” — such as taxes, imperfect information and inefficient markets. But a later revisitation that incorporated the tax-deductibility enjoyed by interest payments showed that the value of an indebted company is actually higher than that of an unleveraged one. It eventually helped lay the intellectual groundwork for a dramatic erosion of corporate creditworthiness.

If the mix of funding is in practice irrelevant to the overall cost, why not leverage up and increase returns to shareholders that own the business, and, indirectly but no less importantly, corporate executives? Indeed, given

that debt enjoys tax breaks in most countries, isn’t it almost irresponsible not to take advantage?

When interest rates began to fall globally in the 1980s, many companies did just that. That executive compensation is largely tied to earnings per share was an additional incentive for companies to leverage up.

Later on, other economists would give the corporate borrowing binge more academic legitimacy by arguing that debt was a potent tool to ensure corporate discipline and therefore increase economic dynamism. This gave rise to the idea of “efficient” balance sheets layered with debt, and immortalised by a memorable phrase written by two corporate finance specialists in 1988: “Equity is soft, debt hard. Equity is forgiving, debt insistent. Equity is a pillow, debt a sword.”

The result can be seen in the evolving distribution of corporate credit ratings. Four decades ago, Standard & Poor’s had given 65 companies around the world a spotless triple A rating, equal to almost 6 per cent of its total ratings. Another 679 companies enjoyed ratings in the A range.

Today there are only five — five! — companies with triple A ratings, out of nearly 5,000 companies. And under 14 per cent of all rated companies are in the A range.

Once again, we can see the cost all around us with many corporate executives now rueing choosing the sword over the pillow. For sure, the Covid-19 pandemic was an extraordinary shock that could have threatened the solvency of even the sturdiest company. But the fact that so many companies around the

world are far from sturdy is a major reason why governments and central banks had to go to eye-popping lengths to moderate a tidal wave of corporate bankruptcies.

Those efforts have largely been successful. Yet the cost has been gargantuan and the pain will still be frightful. Standard & Poor’s tallied 88 corporate bond defaults just in the second quarter of 2020, the highest since the peak of the financial crisis. Millions of smaller businesses have gone under.

While the overall toll is likely to be more moderate than that caused by the global financial crisis, we will be living with the legacy for years to come.

After 2008, there was a reckoning with banks and how they fund themselves. After 2020, there should be a similar overhaul for companies. The aim can obviously not be to immunise every company completely from every crisis — let alone one as abrupt, broad and deep as Covid-19. But a shift from efficient to *resilient* balance sheets would be a long-term boon to the health of the financial system and the global economy.

Ideally, this should happen in response to the signals already being sent by markets: the shares of companies with stronger balance sheets have this year massively outperformed those with weaker ones, according to Goldman Sachs data.

But if this proves a fleeting phenomenon — as is likely — then more countries should start taking a hard look at the tax advantages enjoyed by debt. Such a draconian move can only be done carefully, over a long period of time. But everyone would benefit from a world where companies once again aspire to be more creditworthy.

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COMPANIES & MARKETS

Food & beverage

Danone set to prune assets portfolio

Management to focus on geography rather than product type in shake-up

LEILA ABOUDD — PARIS

Danone is overhauling its management and plans to sell underperforming businesses as it seeks to recover from the virus crisis, which has sent its shares to six-year lows.

The French food group, which produces Evian water and Actimel yoghurts, yesterday said chief financial officer Cécile Cabanis, who has been at the group for 16 years, would step down by February.

Chairman and chief executive Emmanuel Faber said Danone would not exit any of its main categories of dairy and plant-based milks and yoghurts, bottled water, and infant formula.

Instead, it would seek to “prune the portfolio”, having already identified its Argentina unit and plant-based protein shake Vega brand as potential candidates to be sold.

“We think we have the right categories and are committed to them, but Covid-19 is hurting some businesses and creating opportunities elsewhere,” he said. “This will be a fundamental review of all our brands, SKUs [products], and assets, with no stone left unturned.”

The company, which competes with larger consumer goods groups such as Nestlé and Reckitt Benckiser, will revamp its management to focus

Faber’s focus on social and environmental objectives has left many investors sceptical

on geography rather than product type.

The virus has upset Danone’s business by slowing sales of yoghurts and bottled water in restaurants, cafeterias, and convenience stores, while boosting

online and grocery store sales. Consumers have begun trading down to cheaper brands, while border closures and travel curbs put pressure on supply chains.

The company reinstated its 2020 forecasts for a 14 per cent recurring operating margin and €1.8bn of free cash flow, and said it hoped to “rapidly reconnect” with its pre-pandemic goal of midterm annual like-for-like sales growth of 3 to 5 per cent.

Danone’s share price has fallen 28 per cent this year, underperforming larger rivals.

Nestlé’s shares have risen 2 per cent this year, PepsiCo’s 4 per cent and Unilever’s almost 12 per cent.

A valuation gap has opened up

between Danone and Nestlé in the past three years, with the French group trading at an almost 40 per cent discount on a price-to-earnings basis.

Investors have been sceptical of Mr Faber’s focus on environmental and social goals, and frustrated by Danone’s inability to deliver on targets.

“A company with health and wellness at its core is unable to grow, just when those qualities should be at a premium,” wrote Martin Deboo, analyst at Jefferies, in a note published before third-quarter sales.

“Our central conclusion is that Danone’s problem with the market is an issue of trust and confidence as much as one of delivery per se.”

Retail

Alibaba pays \$3.6bn to take control of supermarket business

RYAN MCMORROW — BEIJING

Alibaba is spending \$3.6bn to buy a controlling stake in one of China’s top supermarket operators as it focuses on grocery delivery, a key growth engine for the ecommerce group during the pandemic.

The investment in Sun Art Retail Group will raise Alibaba’s 36.2 per cent stake to 72 per cent. Alibaba also will make a general cash offer of as much as HK\$17bn (US\$2.2bn) to the grocery chain’s other shareholders.

Shares in Hong Kong-listed Sun Art surged 19 per cent yesterday while Alibaba climbed 1 per cent in Hong Kong.

Alibaba is purchasing the shares from France’s Auchan Retail International.

Sun Art is China’s second-largest grocery chain, with more than 480 stores. The two companies have already partnered on grocery delivery, with Alibaba’s blue-clad couriers ferrying everything from toilet paper to frozen dumplings from Sun Art’s outlets to shoppers in as little as one hour.

Sun Art’s substantial brick-and-mortar footprint has made the company a key partner for Taoxianda, Alibaba’s fledgling grocery delivery platform.

Last year, Sun Art was the first traditional grocer in China to make its online delivery business profitable, according

Retail. Beauty industry

Kiko goes for growth after makeover

Boss at cosmetics group uses

pre-pandemic turnaround as

launchpad for global push

SILVIA SCIORILLI BORRELLI — MILAN

Upmarket Italian cosmetics brand Kiko Milano, which was forced to quit the US two years ago, is to increase its global store network by a third as it uses a turnaround launched before the pandemic to refocus on expansion.

The company, founded in 1997 by Antonio Percassi, the entrepreneur who owns Atalanta football club, launched Zara stores in Italy and holds the national Starbucks licence, plans to open 300 new stores globally by 2022.

“We were lucky to face a crisis years ago and focus on the company’s turnaround in 2018 and 2019, it made it easier for us to face Covid,” said chief executive Cristina Scocchia, L’Oréal Italia’s former boss who was poached in 2017 to take charge of an overhaul at the company.

During the first three years of her tenure, Kiko closed all but five of its 30 US stores through a Chapter 11 bankruptcy of its domestic subsidiary and went through a €230m debt restructuring. About 760 jobs were cut and 14 per cent of global stores were shut down following a failed “fast and furious international expansion from 2014, which the structure wasn’t ready for”, said Ms Scocchia.

Last year, the company doubled its earnings before interest, taxes, depreciation and amortisation to €58m on sales of €600m. Global make-up sales have been growing steadily and, according to McKinsey, the \$500bn beauty industry is expected to prove resilient in spite of coronavirus.

Kiko intends to continue its pre-pandemic strategy of shutting down 15 to 20 non-performing stores each year, but the chief executive said job protection during the pandemic had been a priority.

“As business people we have a big social responsibility, and in moments as dramatic as this one it’s important to remember we each play a part,” said Ms Scocchia.

“When you furlough 7,000-8,000 employees you feel the responsibility for those people . . . because a job doesn’t just mean a salary, it means dignity, fulfilment,” she said.

The company was forced to close almost all of its 900 stores across 26 countries for more than two months because of the pandemic, prompting a 30-50 per cent fall in revenue. All but



Kiko chief executive Cristina Scocchia is backing a mix of online and physical stores
FT montage

the eight Israeli stores have reopened and Kiko managed to avoid job losses and paid employees’ salaries even in jurisdictions where governments had not set up furlough schemes.

In August, Kiko secured a state-backed €270m loan which according to Ms Scocchia will allow the company to focus on expansion. “We will open 50 shops by the end of this year in Israel, Russia, Saudi Arabia and Greece,” she added.

The company anticipates that increasing the store network by 30 per cent will boost revenue and profits over the medium term.

“We are partnering with local companies on the ground which means we’ll divide both risks and rewards through

franchise agreements,” said Ms Scocchia.

The turnaround focused on strengthening the brand, customer experience and digital presence. After an overzealous European expansion last decade, which was one of the causes of the company’s downfall, Ms Scocchia has focused on non-European markets.

“We went from being a European player to a global one, we focused investments in the Middle East and Asia, we worked with local ecommerce platforms around the world and invested in technology well before the pandemic.”

A successful combination between physical stores and online is retailers’ recipe for survival and, according to analysts, companies that began investing in digital technologies and boosting their online presence before the pandemic will recover before their peers.

“The trend existed well before Covid-19 . . . it’s been accelerated and there will be a new dimension for retail but it

‘We will open 50 shops by the end of this year in Israel, Russia, Saudi Arabia and Greece’

doesn’t mean retail is dead . . . only traditional retail is,” Ms Scocchia said.

As Kiko looks to bolster online sales, it plans to hire 50 full-time employees at its Bergamo headquarters by the end of the year, many of them in marketing and technology. Hiring in the city, one of the wealthiest and most industrialised in Italy, is something of a symbol, too.

Bergamo became Italy’s coronavirus epicentre, drawing international attention as morgues and cemeteries struggled to cope with the number of deaths: “It was clear from early on something was going on and we had to put people first,” Ms Scocchia said.

Now the situation has evolved, she said, with the community and businesses better equipped to manage the situation, and the city is “proudly and cautiously restarting”.

“There’s an element of courage and optimism [in our expansion plan],” she said. “We see this [pandemic] as a negative parenthesis but it can’t last for ever.”

The bricks-and-mortar footprint of Sun Art has made the company a vital partner for Taoxianda

to Bernstein Research. This year the pandemic helped lift the company’s online grocery operating profit margins to an estimated 10.5 per cent in February, from about 2.5 per cent for the full year in 2019 as shoppers increased the number of items they purchased in each order, according to Melinda Hu at Bernstein. Sun Art’s net profit rose 15.4 per cent in the first half of the year from the same period in 2019.

Grocery and fresh produce delivery have become key revenue drivers for China’s ecommerce giants including Meituan, Pinduoduo and JD.com as shoppers avoid physical stores due to the coronavirus outbreak.

“Competition has also intensified,” said Ms Hu. “Because of Covid, the online grocery sector as a whole has drawn a lot of capital and investment, and the smaller players who would have otherwise been squeezed out of the market have continued to survive.”

Daniel Zhang, Alibaba’s chief executive, said that as the pandemic accelerated the “digitalisation of consumer lifestyles”, the Sun Art deal would enable Alibaba to provide consumers with a fully integrated experience.

The ecommerce company has been building out its own line of delivery-optimised supermarkets known as Freshippo, which pairs physical outlets with an app. The increased stake in Sun Art will more than double Alibaba’s grocery store footprint, adding many stores in China’s smaller cities where Freshippo has yet to open outlets.

“Alibaba’s core ecommerce business is under pressure; its profit hasn’t grown much this year, [and] this will help,” said Li Chengdong of ecommerce think-tank Haitun. Once the deal closes, Alibaba will consolidate Sun Art’s finances into its own.

See Lex

Insurance

Risk margin tops agenda in rules shake-up

OLIVER RALPH

The government is planning post-Brexit changes to some of the most contentious aspects of insurance regulation in a move likely to signal a departure from EU rules.

UK insurers must comply with Solvency II, the EU’s insurance capital regime, which came into force in 2016. But industry executives have long complained that the rules are too complex and do not suit the way the UK insurance sector works.

Once the Brexit transition period ends on December 31, the government will be free to set its own regulations. Ahead of that, the government yesterday launched a review of the way Solvency II is applied in the UK.

At the top of the agenda is the risk margin, the part of Solvency II that is most hated by the UK insurance industry and which has also been criticised by the Prudential Regulation Authority.

The risk margin is an extra layer of capital that insurers have to hold against some types of long-term business such as annuities. But insurers complain that it is too volatile, and rises too much when interest rates are low.

Speaking to the FT last month, Tracy Blackwell, chief executive of Pension

‘Reform could reduce the volatility . . . of insurance firms’ balance sheets’

Treasury consultation paper

Insurance Corporation, said the risk margin was “insanity” and made capital planning “quite tricky”. In a consultation paper, the Treasury said: “The Government intends to work with the PRA to reform the risk margin. Reform could reduce the volatility . . . of insurance firms’ balance sheets and enable them to increase the choice and affordability

of products available to businesses and households.”

The government said it wanted to make it easier for insurers to invest in long-term infrastructure projects. This has been one of the industry’s big complaints about Solvency II, with insurers saying that the regime makes such investments difficult.

Huw Evans, director-general of the Association of British Insurers, welcomed the review. “The long-term liabilities of insurance and long-term savings companies make them natural investors for the long term, but the current Solvency II framework discourages investment in sustainable assets and is overburdened with reporting requirements,” he said.

“In particular, a more flexible approach to Solvency II is critical in order to unlock more of the £250bn assets that back UK annuities and could be used for investment in infrastructure and sustainable technology.”

Financials

HK banks told to report security law breaches

PRIMROSE RIORDAN AND NICOLLE LIU — HONG KONG

Banks in Hong Kong have been advised to report any transactions suspected of violating a controversial national security law to police, according to a document online from the city’s regulator.

The advice, published by the Hong Kong Monetary Authority, suggested banks report breaches of the law as they would any violation of money-laundering or terrorist financing regulations. The guidance applies to all lenders.

Beijing imposed the law, which targets acts such as terrorism, subversion, secessionism and collusion with foreign elements, on Hong Kong in June following pro-democracy protests last year. Critics say the law is too far-reaching and vaguely defined, and that it violates freedoms guaranteed to the city on its handover from the UK to China in 1997.

International banks that operate in the city, including HSBC and Standard

Chartered, have been criticised for backing the new rules.

Hong Kong regulators have yet to publicly issue official guidelines on how financial institutions should implement the law, but the HKMA said reporting obligations under it would be triggered when a bank “knows or suspects that any property is offence-related property”. The term “property” refers to the proceeds of a criminal breach of the law.

Banks were advised to follow procedures used for money laundering, when they convey breaches to a police task force through what are known as “suspicious transaction reports”.

The HKMA paper was from the Hong Kong Association of Banks, a statutory body and membership is compulsory for all banks in the city.

Banks were instructed to be “fully conversant with these FAQs and to have regard to them in meeting their . . . legal and regulatory obligations” under anti-money laundering and counter-financ-

ing of terrorism laws. But lenders could take the widest possible definition when reporting breaches to ensure compliance with the new guidance and protect themselves from prosecution, lawyers and compliance experts warned.

Nicholas Turner, a compliance lawyer at Steptoe, said the document provided more clarity but banks would still be “left to their own devices” in interpreting the law until they got official guidance from regulators.

“That is a very difficult determination for a bank to make,” he said.

One Hong Kong-based international bank spokesman said: “The safest approach for banks would likely be . . . report anything slightly related to a breach.”

The officer, who was not authorised to speak publicly, said that if an outspoken pro-Beijing figure were to accuse a person in Hong Kong of violating the security law, banks would be obliged to “look into it”.

COMPANIES & MARKETS

Fernandes aims to line up state backing as horizons narrow for debt-laden AirAsia

Malaysian mogul faces toughest challenge of his career with auditor raising doubts on carrier’s outlook

STEFANIA PALMA — SINGAPORE
PEGGY HOLLINGER AND SAMUEL AGINI
LONDON
STEPHANIE FINDLAY — NEW DELHI

Tony Fernandes is one of Asia’s most marketing-savvy entrepreneurs, often drawing comparisons with Richard Branson, the British entrepreneur behind Virgin and his one-time mentor and boss.

The Malaysian tycoon bought AirAsia for less than \$1 in 2001 and turned it into one of the largest low-cost carriers in the region.

He built his empire using many of the publicity-friendly tactics for which Sir Richard became famous. In 2013, he made headlines when the Virgin boss dressed as an AirAsia flight attendant — in lipstick and fishnet stockings — after losing a bet. Announcements of new aircraft orders at air shows often resembled variety shows featuring cabin crew in AirAsia’s red uniforms.

But now Mr Fernandes is facing one of his toughest challenges as the pandemic pummels his business.

AirAsia X, his long-haul airline, is saddled with RM63.5bn (\$15.3bn) of debt and earlier this month it unveiled a restructuring plan to cope with “severe liquidity constraints”. AirAsia X’s deputy chairman said at the weekend that the unit had “run out of money”, adding that it was liquidating its Indonesian business and writing down its 49 per cent stake in Thai AirAsia X. The long-haul arm’s share price has fallen 77 per cent this year.

AirAsia, the heart of Mr Fernandes’s empire, is facing its own struggles and its share price has fallen 65 per cent in 2020. The company has pulled out of Japan. Its Indian airline, a venture with



Gone to ground: AirAsia has pulled out of Japan, and its Indian carrier, a tie-up with Tata, is under scrutiny after reports that the Malaysian business has stopped funding it
Mohd Raslan/AFP/Getty Images

which are much bigger than comparable airlines, it is time to get very, very concerned.”

Mr Tusa said AirAsia had about 350 undelivered Airbus narrow-body aircraft. He forecast that only 60 aircraft would be delivered until the end of 2027.

Mr Fernandes earlier this month said he planned to return as many AirAsia planes as possible and cut the fleet by a quarter to 180 aircraft.

The company is in discussions with Rolls-Royce and Airbus, which will have to approve AirAsia X’s debt restructuring plan.

The pandemic has renewed questions about the carrier’s overseas expansion. “AirAsia at its height . . . arguably was south-east Asia’s largest low-cost carrier,” said Paul Yong, an analyst at DBS. Units in Malaysia and Thailand were the most successful, but “going into Indonesia and the Philippines was a tougher proposition, because there were already other leaders”.

Mr Fernandes admitted that the company could exit more markets. “For our remaining five airlines, there may come a point where we have to maybe exit one, but that point hasn’t [arisen] yet.”

The long-haul unit says it has ‘run out of money’ and is liquidating its Indonesian business

Analysts point to India, where the company is in need of recapitalisation. Neelam Mathews, a New Delhi-based aviation analyst, said the outlook for the airline was “pretty dismal”, adding that competition would become more aggressive following the pandemic.

Mr Fernandes said signs of hope in Asia. Domestic travel in Thailand and Malaysia respectively, for example, had reached 80 per cent and 60 per cent of AirAsia’s pre-pandemic levels.

He hoped AirAsia’s super app — a one-stop travel, ecommerce and fintech platform — would be a route to better insulating the company from the blows suffered by airlines. “It’s a cyclical business in between volcanoes and tsunamis,” he said. Services delivered on the app will be expanded from Malaysia to the rest of south-east Asia in the next three months.

Analysts said the airline was unlikely to collapse. “The low-cost carrier model post-Covid will be as resilient as it was before and even stronger relative to full-service carriers,” said Mr Yong.

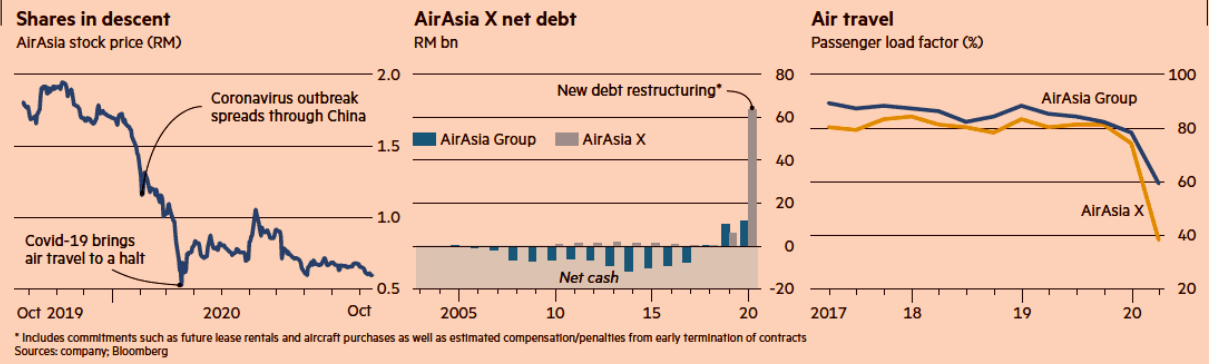
Mr Fernandes will no doubt also fall back on the guiding business principles he described in his memoir to find a way out of the morass. He wrote: “I’m a black and white person, which can get me into trouble . . . You need to lead through clarity, not manipulation.”

\$15.3bn

Debt pile at AirAsia X, the group's long-haul business

65%

Decline in the price of AirAsia shares so far this year



the Tata Group, has come under renewed scrutiny after reports that the Malaysian business had stopped funding it. Mr Fernandes denied the claim.

The crisis has forced AirAsia to seek support from the Malaysian government for the first time. “In 19 years, we’ve never [had] any necessity to ask for a government-backed loan,” Mr Fernandes said. “This is solely out of Covid, where we lost so much of our sales”.

Mr Fernandes’s difficulties are indicative of the challenge facing the sector, with travel restrictions wiping out passenger traffic. But some analysts also suggest that the group has over-stretched, even if a collapse remains unlikely.

AirAsia quit Japan months after EY, the group’s auditor, said that the pandemic had cast “significant doubt” on the carrier’s ability to continue as a going concern. EY said that in the 2019 financial year, AirAsia registered a net loss of RM283m and its current liabilities exceeded current assets by RML84bn (\$430m).

Mr Fernandes’s businesses sit under an umbrella called Tune Group, with divisions ranging from the airlines to insurance, football, and hotels. Mr Fernandes and Kamarudin Meranun, his longtime business partner, jointly hold 32.18 per cent of AirAsia’s shares via

When it rains it pours: a test for Tony Fernandes, but analysts say the low-cost model will prove its resilience
Tim Cheng/Reuters

Tune Live, an investment holding company, and Tune Air, Tune Group’s airline division. Tune Group is AirAsia X’s largest shareholder with a stake of 17.83 per cent, followed by AirAsia at 13.76 per cent. Mr Fernandes holds a 2.69 per cent stake in AirAsia X. Mr Fernandes is concentrating on the



airline after years of forays into different sectors. “AirAsia is the most important baby to me, so that’s where most of my focus will be,” he said.

The tycoon bought the Lotus Formula One racing team in 2010 and a year later acquired Queens Park Rangers football club from Bernie Ecclestone, the former F1 boss. QPR were relegated from the Premier League in 2013 and after winning promotion to the top tier of English football, were relegated again in 2015. Mr Fernandes quit F1 in 2014, when he sold the team before it collapsed into administration.

Mr Ecclestone said: “Both F1 and football are highly speculative. In the end it’s not how much effort and money you put into it; everything has to fall in place, and you’ve got to be lucky. He was probably trying to do too much. The wrong people take advantage if you’ve got money, and I think in his case [that] is what happened.”

The crisis has highlighted three

underlying issues for Mr Fernandes’s business: the long-haul unit’s chronic underperformance, the company’s huge aircraft fleets, and the difficulty of sustaining the international network.

AirAsia X was struggling before the pandemic, according to analysts, who point to the difficulty of making a low-cost strategy viable for a long-haul carrier. Since listing in Kuala Lumpur in 2013, the unit has registered a full-year net profit just twice.

“If [Mr Fernandes] stuck to just short-haul and even just stuck to Malaysia . . . he would be a formidable force,” said a banker who has previously worked with the airline.

The company is encumbered by a large fleet, making it one of the biggest customers of Airbus and Rolls-Royce. “We have been sceptical about [the] sheer number of orders they placed for some time,” said Sash Tusa, an analyst at Agency Partners. “Anytime an airline gets so big that it starts placing orders

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Mining

Polymetal chief calls for common ESG metrics

NEIL HUME AND HENRY SANDERSON

The head of the biggest London-listed gold producer has called for common reporting standards on environmental, social and governance performance in the mining sector, as the methods currently used were often inconsistent, inaccurate and an exercise to “tick the boxes”.

Vitaly Nesis, chief executive of Polymetal, said fund managers were confronted with a “smorgasbord” of ESG ratings, many of which did not reflect reality.

“In the cases where you need to measure actual relationships with the workforce or the host communities . . . rating agencies frequently lack a robust analytical framework,” Mr Nesis told the Financial Times. “They just tick the boxes . . . on whether there is this policy on site, or whether this is this statistic provided.”

As big institutional investors focus more heavily on sustainability, a plethora of companies have started offering

ESG scores. These include Sustainalytics and index providers such as MSCI, as well as credit rating agencies Moody’s and S&P Global.

However, it is not clear that metrics prepared by analysts sitting thousands of miles from operations provide an accurate reflection of a business’s ESG

Investors are led to believe that a certain company has a high ESG score only to discover that it’s not true

risks. This is particularly important for mining, which by nature involves altering the environment.

Industry consultants cite the example of Rio Tinto, which scored highly in metrics but was tipped into crisis by the destruction this year of two ancient Aboriginal rock shelters in Australia.

“We have many cases where investors are led to believe that a certain company is advanced in terms of ESG only to

discover that it’s not true,” said Mr Nesis. “You can’t base your estimate of the relationship with the workforce, for example, on a self-reported employee satisfaction score. I know at least a couple of ESG score providers who do just that.”

Mr Nesis said the ESG investment drive would “benefit hugely” from a common set of rules similar to the International Financial Reporting Standards that allow investors to compare financial statements.

“I’m not saying financial reporting is not without issues . . . but it is a reasonably uniform and reasonably reliable way for investors to make informed decisions without needing to invest a lot of time and money to obtain objective information,” he said.

Polymetal, which has a market value of £8.3bn, operates eight mines and a state of the art processing plant in Russia and Kazakhstan, and produced 1.6m ounces of gold last year. The company has won plaudits for its approach to ESG and its focus on two jurisdictions.

Travel & leisure

Crown Resorts hit by laundering probe

JAMIE SMYTH — SYDNEY

Shares in Crown Resorts sank after the Australian casino operator said it was being investigated by the country’s financial crimes regulator for potential breaches of anti-money-laundering and counter-terrorism financing rules.

Crown said Austrac had identified concerns during a September 2019 compliance assessment at its Melbourne casino that focused on management of customers identified “as high-risk and politically exposed persons”.

“The potential non-compliance includes concerns in relation to ongoing customer due diligence, and adopting, maintaining and complying with an anti-money-laundering/counter-terrorism financing program,” the company said.

Crown said it would co-operate with the inquiry. Austrac confirmed that it had begun a probe but would not comment further.

Shares in Crown closed down 8.2 per cent yesterday as investors digested

the latest in a series of regulatory investigations into the group’s conduct and governance.

It piles pressure on the company’s board, which is already under fire from shareholders over governance failures highlighted by an inquiry in New South Wales linked to its Sydney casino.

Some proxy advisory groups, including Ownership Matters, have advised shareholders to vote against three Crown directors who are up for re-election at its annual meeting on Thursday.

Australian investors including Perpetual, which owns about 9 per cent of Crown, are expected to oppose the re-election of John Horvath, Crown’s deputy chairman.

US private equity group Blackstone, which holds 10 per cent, has not yet indicated how it will vote.

NSW authorities are investigating whether Crown Sydney, a A\$2.2bn (\$1.6bn) development due to open in December, should be allowed to retain a casino licence.

The probe follows media reports that

organised crime gangs laundered money at the group’s casinos.

Dean Paatsch, co-founder of Ownership Matters, said shareholders should vote against all incumbent directors up for re-election at the AGM.

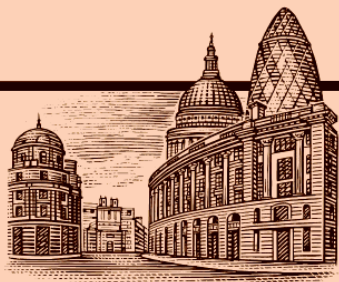
Austrac fined Westpac, Australia’s second-largest lender by market capitalisation, A\$1.3bn last month over anti-money-laundering law breaches.

Elizabeth Sheedy, a governance expert at Macquarie University, said: “Shareholders should be asking themselves how the directors mentioned above can justify their positions on the board, and voting accordingly. The entire risk committee should be resigning and returning their fees, as they have utterly failed in their duties.”

The NSW inquiry has identified concerns over a controlling shareholder protocol that enabled Crown directors to pass on internal financial forecasts to James Packer — who owns 36 per cent of the group — shortly before he sold a stake in the business to Macau-based gaming group Melco Resorts last year.

COMPANIES & MARKETS

Lombard



Auditors can cut free but Boohoo needs a credible successor to PwC



PwC's decision to put on seven-league boots and quit auditing Boohoo's accounts after seven years is not grandstanding. It is a rational look at the fees it is earning from the fast-fashion retailer – £225,000 for audit and £389,000 including other services – and the risks of continuing to work with a business under the spotlight. Lawyer Alison Levitt, commissioned by Boohoo to look at allegations of low pay and poor working conditions in the group's Leicester supply chain, said the management knew about the failures. The Manchester group's internal processes were “well below the standard which would be expected of a company of its size and status” and risk management systems “were significantly undeveloped”. Alleged control weaknesses were also the reasons given for Deloitte quitting

as auditor of EG, the petrol stations business whose owners have recently agreed to buy grocer Asda. PwC's move gives more oxygen to widespread reservations about Boohoo culture. The retailer's shares fell almost 20 per cent yesterday. But PwC's decision comes from a cold-eyed calculation of what its continued association with Boohoo might cost it, not what it will cost Boohoo's shareholders or staff. Auditors are under increasing scrutiny themselves. The Financial Reporting Council suggested in its latest audit quality review in July that too many number checkers were prepared to play patsy. They didn't challenge enough, or display enough scepticism and were too willing to take the bosses' maths on trust. When a big-name auditor quits, it can open the way to a small would-be rival without the resources to triple-check management's spreadsheet prowess. Worse, it can leave a void. Sports Direct – aka Frasers Group – struggled to find a replacement auditor when Grant Thornton resigned after the retailer revealed a probe by the

Belgian tax authority. It narrowly avoided having to ask Andrea Leadsom, the then business secretary, to impose her choice on the group. EY – which is still in the doghouse for its audit of Wirecard, the collapsed German payments processor – quit as auditor of fintech Finabl in May citing corporate governance weaknesses and links to the payments' group's stablemate NMC Health. Finabl, which has since missed its accounting deadlines and suspended its shares, has not announced a replacement. PwC is entitled to cut free from Boohoo. But it is in everyone's interests to make sure Boohoo appoints a credible successor. Amigo can't shake off FCA Popstrel Taylor Swift knows a thing or two about feuds. When “the haters gonna hate, hate, hate, hate”, you have to “shake it off, shake it off”, she advises. Subprime lender Amigo Loans, which relies on friends and family guarantors backing borrowers, is having trouble shaking off its own adversaries. The lender has a new “asset

voluntary requirement” with the Financial Conduct Authority, a supervisory tool the watchdog uses to keep firms in line. It means Amigo can't pay dividends or dole out discretionary sums to directors without the FCA's say-so. No big deal, says Amigo. The so-called VReq won't affect the day-to-day running of the business. And Amigo can still pay down its debts. But it isn't Amigo's first run-in with the FCA. Amigo entered into another VReq in May to deal with a building backlog of complaints from customers. It was required to address grievances within eight weeks. That VReq was meant to last until the end of June. So numerous were the gripes, it had to be extended until the end of this month. The new restriction shows the FCA isn't letting up on high-cost lenders. It has consistently tightened regulation since 2014, the year that payday lender Wonga got on its wrong side and was subjected to its own VReq. Non-Standard Finance announced an FCA-induced review into its processes in August. Scrutiny will only intensify as an economic downturn increases the

number of potential customers unable to access more conventional sources of credit. Amigo isn't necessarily done for. A VReq signalled the beginning of the end for Wonga. But doorstep lender Provident Financial's Vanquis Bank had one for almost four years. It was lifted in August, and analysts reckon the Provvy is recovering. Still, the Provvy's shares are only worth a tenth of what they were little more than three years ago. Amigo may be on a similar path. It has successfully shaken off unpredictable founder and former big shareholder James Benamor, who spent much of the past year trying to regain control of the company. New management is trying to “restore confidence”. Their efforts may stop Amigo from failing. But with a market cap of £44m, they are unlikely ever to build it back to the £1.3bn business it was at IPO less than two-and-a-half years ago. Unlike Taylor Swift, Amigo isn't just gonna shake it off. *kate.burgess@ft.com*
Amigo: cat.rutterpooley@ft.com

Financial services

Amigo must seek FCA approval to make payouts

Deal with watchdog on dividends and bonuses follows battle for control

MATTHEW VINCENT AND NICHOLAS MEGAW

Amigo Loans has been told it cannot make any dividend or bonus payments without the regulator's permission in the latest blow to the subprime borrowing business following months of management upheaval. Yesterday, Amigo announced it had entered into an “asset voluntary requirement” with the Financial Conduct Authority – a supervisory measure that means it will need prior approval by the regulator to transfer assets “in certain circumstances”. These transfers include discretionary cash payments to its directors and dividends to shareholders. Shares in Amigo Holdings fell 20 per cent after the announcement before closing down 10.6 per cent. Amigo said the new requirement “does not impact the day-to-day running” of the business, or its ability to continue to pay down debt. It also stressed it had “adequate liquidity to continue to fund operations and support its customers”. However, the company acknowledged that the increased regulatory scrutiny followed a high-profile battle for control between its previous board and founder James Benamor. Mr Benamor had attempted to return to run the group, claiming its management had mishandled a rise in complaints and failed to stand up to the regulator in the past. Last month, he tried

to rejoin the board before installing himself as group chief executive, but 57 per cent of votes cast at a shareholder meeting rejected his proposal. Yesterday, Amigo noted it now “has a new board in place and is in regular and productive dialogue with the FCA to restore confidence following the events of recent months”. It added: “The board continues to be focused on addressing Amigo's legacy issues, restoring confidence in its corporate governance and building a sustainable business for the long term.” One person briefed on the regulator's action suggested it may have been taken as a precaution in case Mr Benamor took control of the group and made changes to its financial structure, but it would not affect the new management's plans. Mr Benamor had suggested returning cash from Amigo's UK regulated lending business to allow its parent group to build new businesses outside the remit of the FCA. However, the new management had already indicated it would not pay dividends or make other asset transfers, and the person briefed on the FCA's move said it “doesn't change any of their plans”. John Cronin, analyst at Goodbody, said: “While this morning's announcement is clearly unhelpful for sentiment . . . the Asset VReq will have a negligible impact on the day-to-day running of the business.” According to FCA guidelines, a VReq may be used “in instances where we have evidence that firms are not meeting our standards”. Its aim is to “prevent ongoing harm to consumers or markets”. **See Lombard**



Flight plan Flybe eyes return to skies early next year

Flybe, the UK regional airline that went bankrupt in March, could be flying again early next year after being bought by a former shareholder. The carrier, which collapsed after loan talks with the government fell through as the coronavirus hit passenger numbers, has been sold to a company run by secretive hedge fund executive Lucien Farrell. The airline's new owner will be Thyme Opco, affiliated with Mr Farrell's hedge fund Cyrus Capital, said administrator EY. “We expect to create valuable airline industry jobs, restore essential regional connectivity in the UK and contribute to the recovery of a vital part of the country's

economy,” said Thyme Opco. It added that the airline, which was the largest regional air carrier in the EU carrying 8m passengers a year between 81 airports in the UK and Europe, would be downsized for its return. The airline will “start off smaller than before”, it said. EY's Simon Edel said: “The restart of this iconic brand, which was once Europe's largest regional airline, will provide a potentially significant boost to aviation jobs, regional connectivity and local economies.” Iata has warned that airlines globally will burn through \$77bn of cash in the second half of this year. *Harry Dempsey*

Alamy

Property

Landsec to offload part of its portfolio in sector shift

GEORGE HAMMOND

Land Securities is to sell off close to a third of its £12.8bn property portfolio, as it seeks to reduce its exposure to struggling sectors such as retail. Mark Allan, chief executive of the FTSE 100 property company, announced it would sell roughly £4bn worth of assets, 60 per cent of them in London, over the next four to five years and reinvest in areas of the market where it could eke out the most value. The new strategy entailed “a meaningful repositioning towards a more focused portfolio with greater growth prospects,” said Mr Allan yesterday. The company said it would pull back from sectors in which it has “little or no competitive advantage”, such as hotels. Any new investment would come after sales in those areas, and would be focused on “urban opportunities”. That could “certainly include” urban logistics, healthcare and housing developments, said Mr Allan, who also hinted that Landsec might invest in retirement housing. The developer remained committed to London, which it described as “one of the world's gateway cities”, but said it would sell some assets to reinvest capital into “new growth opportunities”. Two-thirds of Landsec's portfolio by value is in the UK capital, including a major campus in Victoria, the One New Change shopping centre and office development near St Paul's Cathedral and Deutsche Bank's new offices at 21 Moorfields. Landsec also owns leisure and retail sites in London, which Mr Allan said

Landsec said it would ‘reimagine’ its retail business, particularly six regional shopping centres

could be developed more intensively. But the company would take a cautious approach to any new development while coronavirus remained an issue, he added. Mr Allan took over as chief executive of Landsec in April, having spent close to four years as head of St Modwen Properties, a FTSE 250 developer. Under his leadership, the company focused increasingly on logistics and housing – two property sectors that have performed well in recent years. St Modwen's share price almost doubled between Mr Allan taking over in late 2016 and the pandemic hitting in March this year. Landsec, conversely, has been more exposed to sectors of the market that have stagnated or declined. Yesterday it said it would “reimagine” its retail business, particularly the six regional shopping centres it owns, which include the Galleria in Hatfield and the Westgate in Oxford. Other shopping centre owners including Hammerson are looking at repurposing their malls to include housing, hotels and offices. Landsec has been hard hit by the pandemic, which has thrown retail into turmoil and raised questions about the future of offices. It collected less than two-thirds of the £110m rent it was owed by tenants at the latest rent payment date, with retailers paying only a third of what was owed. Landsec's shares have lost almost 50 per cent of their value since coronavirus broke out in the UK, falling from mid-February highs of £9.96 to £5.24 when the market opened yesterday. That represents a discount to net asset value of 56 per cent. Its shares closed up 1.3 per cent yesterday. **See Lex**

Utilities

Trio of water companies hang on to Caymans tax haven subsidiaries

GILL PLIMMER

Three of the UK's privatised water companies still have subsidiaries in the Cayman Islands tax haven, more than three years after the regulator urged their closure in an attempt to rebuild public trust. Southern Water, South East Water and Welsh Water all have finance companies registered in the islands, though all three say they provide no tax benefits. Southern Water and Welsh Water paid no corporation tax in the year to March 2020. South East Water paid £1.9m tax on pre-tax profits of £33.8m. Although the industry regulator Ofwat does not forbid financial holdings in tax havens, since 2017 it has encour-

aged the industry to close any Cayman Island subsidiaries after sustained public criticism of high executive pay and dividends, coupled with a perceived lack of investment. In a statement, Ofwat said: “Damaging behaviours in the past have left a gap that still needs to be closed and we believe that moving away from having Cayman Island subsidiaries can be part of closing that gap. “Water companies provide an essential public service and so we expect these businesses to demonstrate corporate attitudes that can build public trust.” Ofwat has been trying to tackle poor behaviour in the industry. Four out of England's nine combined water and

sewerage companies were recently rated as poor or requiring improvement, the worst result since 2011, and water companies have also been criticised for failing to repair leaks. Three of the 11 privatised water and sewage companies in England and Wales are stock market listed, while the rest are owned by a collection of mainly private equity and sovereign wealth funds. England is the only country in the world with a fully privatised water and sewerage system, with ownership transferred from the state to large regional monopolies in 1989. The Cayman subsidiaries were set up a decade ago to get around rules preventing the water companies from raising cash on the bond markets. Although

those rules have since been scrapped, many continued to use them. Interest payments made through havens are often not taxed as heavily. Thames Water, Yorkshire Water and Anglian Water have all closed their Cayman subsidiaries in the past two years. Nick Hood, analyst at Opus Restructuring & Insolvency, said: “For all the protestations of full tax accountability, any business that is a private monopoly

deriving its revenues from the UK public needs to understand that having a subsidiary in the Cayman Islands and its ultimate parent company in Jersey will rightly be viewed with suspicion. “If these arrangements are not designed to deny public scrutiny or to deprive HMRC of tax revenues, then why do they still exist?” Southern Water, owned by a consortium including JPMorgan Asset Management and UBS AM, had promised to close its Cayman subsidiary by the end of 2018 but in a statement this month said it is “in the process” of doing so. “The vehicle has no impact on Southern Water's tax position and we are taxed entirely in the UK and considered ‘low risk’ by HMRC,” the company said. It

added that although it paid no corporation tax, it did pay other taxes such as business rates and employment taxes. As with many of the water companies, Southern has a complex corporate structure involving more than 25 subsidiaries and a top company registered in Jersey. South East Water said it was “registered in the Cayman Islands for historic company law reasons but . . . is resident in the UK for tax purposes”. “The company does not gain any tax benefit from this. We have committed that no further debt in the Cayman Islands will be raised,” it added. Welsh Water, which operates as a not-for-profit with no shareholders, said its Cayman subsidiary was due to be closed in the next few months.

COMPANIES & MARKETS

Equities. Trading transition

London's exchanges prepare to activate Brexit switch



Contingency plans rolled out as LSE opens Amsterdam base of Turquoise platform next month

PHILIP STAFFORD AND EVA SZALAY
London's biggest share trading venues are preparing to switch on their Brexit contingency plans, reflecting fears in the City that the UK's departure from EU frameworks will trigger a radical reshuffle of where investors can buy and sell European stocks.

The London Stock Exchange Group said last week that it planned to open the Amsterdam base of its Turquoise platform at the end of November as a place to trade EU shares.

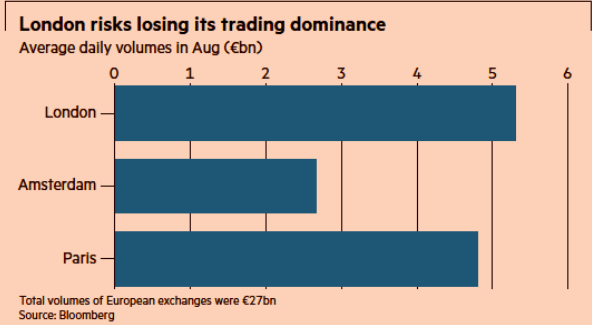
On November 11, rival Aquis Exchange will add stocks to its French platform that were previously available only in London.

Before proceeding, they and their investment banks and high-frequency trading customers are hoping London and Brussels will come to an accord allowing Europe's cross-border share trading market to remain intact beyond January.

But to prevent a split, the EU needs to recognise the UK and its exchanges as operating under "equivalent" rules. With fewer than 90 days to go, optimism is running out.

"There will be no equivalence," said Alasdair Haynes, chief executive of Aquis Exchange, which has 5 per cent of the European market. "People are living in a pipe dream if they think it's going to happen. People are getting prepared to move business over."

London is the biggest share trading centre in Europe, handling as much as 30 per cent of the €40bn daily market but, without equivalence, some of that



trading will move to cities such as Amsterdam and Paris because EU-based institutions will be barred from trading in London.

The biggest US and European investment banks are still lobbying policy-makers to avert a rupture.

"We would prefer to have access to a global capital market," said Edward Monrad, head of European cash market structure at Optiver, an Amsterdam-based market maker. "To some extent, people have a back-up but, if you're going to have a split, it will split liquidity and be bad for investors."

The issue is snagged on a part of EU markets rules known as the "share trading obligation", a law that determines which venues investors can use to trade liquid stocks.

The rules will be duplicated in the UK, which has pledged to implement all EU financial markets standards. Many UK and EU-listed shares will be traded in both jurisdictions, potentially creating two shallower markets.

Anish Puaar, a market structure analyst at Rosenblatt Securities in London, said the lack of clarity on the UK's

position made it difficult to prepare. "There is a fear that the decision will be driven by political considerations rather than what's good for the market."

For many, it is a change made reluctantly. "Having to move liquidity in this way is not an outcome we had hoped for, given it adds complexity to the market," said David Howson, president of CBOE Europe, one of London's biggest exchanges.

The group opened its alternative EU venue last year, although take-up has been low because traders use the bigger market in London.

CBOE already faces growing competition from exchanges, private marketplaces run by high-frequency traders and banks, and expanding rivals such as Aquis. CBOE's market share fell 4.4 percentage points to 16.8 per cent in the first six months of the year compared with the same period a year ago.

"We also need to be mindful Brexit doesn't result in trading reverting back to national exchanges and undo all of the good work we've done to bring competition to [the] European equities market over the past decade," said Mr

Howson. Executives and analysts point to Switzerland, a non-EU country, which had "equivalent" status for stock exchanges revoked by Brussels last year as an example of how the process can become politicised.

The EU could stick to the legal default — no equivalence on share trading — even if London and Brussels agree deals on trade and other aspects of their future relationship.

"The EU sees this as a once in a lifetime opportunity to take business off the UK and, if they play their cards right, they will," said Mr Haynes. That would leave Esma, the EU markets regulator, and the UK's Financial Conduct Authority to finesse their rules to offset the worst of the split.

Steven Maijoor, chair of Esma, said last week that he expected the agency to clarify where EU shares could be traded "shortly". The FCA declined to comment on when it might give clarity.

For some, uncertainty over equivalence also reflected a deeper philosophical difference between the UK and EU over how to run equity markets. Brussels has sought to clamp down on share trading on private marketplaces such as so-called dark pools and other systems operated by banks and high-frequency traders.

The UK, by contrast, has often indicated it is more liberal about off-exchange trading but had to abide by EU rules, said Nick Bayley, managing director at consultancy Duff & Phelps, and a former FCA official. He said regulators would probably work together to avoid the worst, in the short term. "People are tired of regulatory change" after the 2018 Mifid II markets rules, he added. "Nobody wants to be sitting in a bank running two regimes for the same thing."

'The EU sees this as a once in a lifetime opportunity to take business off the UK'

Currencies

Pension funds' excessive costs on trades run to hundreds of millions of dollars

EVA SZALAY

Investors continue to pay vastly over the odds on their currency trades, more than a decade after a group of pension funds took their banks to court over excessive charges, new research shows.

Analysis of almost 2,000 funds showed that the cost of swapping dollars into currencies such as sterling lops 3.2 percentage points a year off the returns that would have been available from the underlying assets.

Custody banks — specialists that provide safekeeping of funds' assets — charged on average \$267 for every \$1m traded in these swaps, although the transactions could be done for \$35, according to Boston-based Lumint and London-based New Change FX.

That equated to an overspend of more than \$370m over almost three years, the research estimated.

"Foreign exchange is the only industry that charges an unknown amount for services that have a cost," said Andrew Woolmer, chief executive at New Change FX.

In 2009, the US state of California

sued State Street, accusing it of "unconscionable fraud" for overcharging the two state pension funds, Calpers and Calstrs, on currency trades.

Other funds launched a legal action against Bank of New York Mellon, alleging that it gave customers poor rates while promising best execution.

State Street paid more than \$500m in 2016 to settle suits from the US government, regulators and clients over these "mark-ups". BNY Mellon's 2015 settlement topped \$700m.

A 2018 working paper by Carol Osler, a professor at Brandeis University in



Swapping dollars to sterling lops 3.2 percentage points a year off returns

Massachusetts, analysed the cost of such non-negotiated — so-called standing instruction — currency trades executed through custody banks.

She found investors paid seven times more for currency deals when relying on exchange rates provided by their custodians than if they negotiated at the market rate.

The standing-instruction arrangement "frees the client from any involvement [in] the trading process but that convenience is the source of costly opacity," she said. "We argue that custodial forex dealers adjust the opacity of each trade to maximise sustainable profits."

To avoid this practice of "shrouding", Prof Osler said, investors could negotiate an upfront fee with their custody banks for currency trades executed on a more competitive basis, or use market rates instead.

BNY Mellon declined to comment while State Street did not provide a comment in time for publication.

FX Transparency, an analytics company, said two-thirds of the 288 pension funds that it surveyed in the US and Europe "turn a blind eye" to the true cost of currency trades.

Currencies

Sterling strengthens as investors shrug off warning of no EU-UK deal

TOMMY STUBBINGTON

Investors are disregarding Boris Johnson's warning that the UK is willing to walk away from trade talks with the EU, responding to the latest breakdown in talks by buying the pound.

The prime minister said on Friday that the UK was set to leave EU trading arrangements without a deal on January 1 unless the EU showed a "fundamental change of approach", triggering a small dip in sterling.

But that proved shortlived and the currency continued to rally yesterday — returning to the level of about \$1.30 to the US dollar where it traded in the middle of last week despite the additional blow of Moody's downgrading the UK's credit rating late on Friday evening.

The currency's stability reflects confidence among investors that the two sides will strike a deal with some investors dismissing Mr Johnson's latest statements as political posturing.

"Nobody believes them," said James Athey, a portfolio manager at Aberdeen Standard Investments. "The market is unwilling at this stage to believe that the

UK would just unilaterally walk away from talks. It's a credibility issue."

Since the pound's big decline in the wake of the 2016 EU referendum, the currency has often been sensitive to rising or falling chances of the UK leaving without a deal — which most investors assume would damage the economy by introducing new trade barriers between the UK and the EU overnight. But the

'The consensus is that we get some sort of deal. Until we know, there's no desire to trade on every headline'

lack of reaction to the latest no-deal warning betrays a growing Brexit fatigue among investors.

"The twists and turns we've seen since 2016 have inoculated people against Brexit," said Russell Silberston, investment strategist at asset manager Ninety One. "The consensus view is still that we get some sort of deal and, until we know for sure, there's no desire to trade on every headline."

The effects of the pandemic have also

Fixed Income

Brussels hires banks to start breakthrough joint bond programme

TOMMY STUBBINGTON

The EU has hired banks to sell new 10- and 20-year bonds this week, the start of a borrowing spree that is expected to transform Brussels into a significant operator in bond markets.

The sale will be the first under the SURE programme, a scheme to provide up to €100bn of loans to member states to support their efforts to keep workers in their jobs during the Covid-19 crisis.

The debt is expected to price today, according to bankers working on the deal, and should provide an early indication of Brussels' costs of borrowing as it massively scales up its bond issuance over the next year.

In addition to the SURE scheme, the EU will also begin selling bonds in 2021 to pay for its €750bn recovery fund. That package, agreed in July, was hailed as a breakthrough by investors with EU members agreeing to large-scale jointly backed debt for the first time.

Under the two programmes, Brussels will issue as much as €200bn of bonds next year alone and will eventually become one of the largest bond issuers in the eurozone, ranking behind only the four largest government markets of Italy, France, Germany and Spain.

The EU currently has roughly €50bn

'Substantial European Central Bank purchases of the inaugural EU benchmarks are in store'

of bonds, most of which were used to fund loans to Ireland and Portugal during the region's debt crisis. The debt has underperformed other eurozone markets since the summer as investors brace for the deluge of new issuance.

A bond maturing in April 2031, the closest the EU has to a 10-year benchmark, trades at a yield of minus 0.24 per cent, according to Tradeweb. That indicates the EU would be able to borrow more cheaply than countries with higher yields such as Spain or Italy but it will pay a premium relative to Germany's 10-year yield of minus 0.61 per cent or France's of minus 0.33 per cent.

The EU has already approved €874bn of loans under the SURE programme. Italy and Spain are the largest recipients with €274bn and €21.3bn, respectively, according to an EU presentation for investors published this month.

The sale, handled by Barclays, BNP Paribas, Deutsche Bank, Nomura and UniCredit, is expected to meet strong demand from investors hungry for top-rated bonds, given that the EU enjoys a triple A credit rating with two of the major rating agencies.

The new debt is also likely to receive the backing of the European Central Bank, which has said it will focus its asset purchases on segments of the market most affected by the pandemic.

"Substantial ECB purchases of the inaugural EU benchmarks are in store," said Michael Leister, Commerzbank's head of interest rate strategy.

COMPANIES & MARKETS

Investors bet on resilience of India’s rural economy

Benjamin Parkin
Markets Insight



India has been among the countries hardest hit by the pandemic with more than 7.5m cases recorded, second only to the US. It is looking at a 10 per cent economic contraction this year, according to the IMF, dealing a deep blow to the country’s already weakened financial system.

This has unnerved investors who had bet on the future prospects of a fast-growing, urbanising emerging market giant. Mumbai or New Delhi have been overwhelmed by the virus, the urban middle-class gutted by job losses and millions of migrant workers have abandoned cities altogether.

Out of this bleak picture, however, the resilience of the country’s overlooked hinterland has come to the fore. Home to more than half of the 1.4bn population, rural India has for years struggled with low agricultural productivity and under-investment.

But since the pandemic hit, India’s heartland economy has outshone urban areas thanks to everything from a good crop season to government stimulus.

The hope that rural India will lead the economic and corporate recovery has spawned what has now become a popular investment theme with stockpickers and traders seeking out companies poised to thrive on this rural revival.

These have ranged from candidates with direct ties to agriculture, such as tractor makers Mahindra & Mahindra and Escorts, which have reported strong sales. Their share prices have more than doubled from lows in March when India first went into lockdown, outpacing the 50 per cent growth in the benchmark Nifty 50 index.

The rural halo has also extended to two-wheel manufacturers such as Hero Motocorp, which has reported strong

rural demand for its affordable motor-cycles and scooters.

Fast-moving consumer goods companies such as Hindustan Unilever or Britannia, which thrive on selling cheap snacks or sachets of shampoo in rural markets, have also benefited.

“The rural and semiurban parts of India are leading the charge,” Niranjan Gupta, Hero’s chief financial officer, said in August. Hero’s share price is up 115 per cent since March.

This trend is reinforced by data showing everything from good monsoon rains to rural wages and employment.

The government has provided a

Mahindra & Mahindra shares have more than doubled since March, outpacing the Nifty 50

record number of jobs under its National Rural Employment Guarantee Act, which provides a minimum 100 days of work per year to informal labourers.

Data points like these “are clearly tell-tale signs that rural India is leading the recovery”, said Lakshmi Iyer of fixed income and head of products at Kotak Mutual Fund. Ms Iyer said she has been rejigging her portfolios to capture this rural rebound, from building positions with speciality chemical makers to consumer goods businesses.

These signs of a rural turnaround are encouraging. Yet investors should still treat this rural revival narrative with caution. A bountiful crop will certainly help boost purchases of motorcycles or even gold, a favoured form of

investment in rural areas. Yet better rains or state stimulus will not change the structural factors that have long held back rural India, such as low productivity and underdeveloped services.

“None of these are things that fundamentally alter demand patterns,” said Aditya Narain of Edelweiss Financial Services. Mr Narain believes there needs to be much more of a structural shift in demand for stock prices to go up from here.

The government recently moved ahead with politically controversial reforms to liberalise the trade for farm goods. Although they are expected to have long-term benefits in opening up India’s agricultural commodity markets, these will take time.

The hard truth for now is that, in the months to come, many of the millions of migrants who left India’s cities for their villages during the lockdown are expected to return to urban India – having failed to find opportunities in the farm lands.

This could in turn serve to drain rural areas of a chunk of the demand to which investors have reacted. The virus itself is complicating matters too, having spread into rural areas with less testing capacity and weaker healthcare infrastructure.

“We don’t know what’s happening in the rural areas as far as Covid goes,” said Shumita Deveshwar, a senior director at research firm TS Lombard. She argued that much more needs to be done to rebalance India’s rural-urban divide. “We need a strong economy for the rural sector to be strong,” she pointed out. “I just don’t see how sustainable this particular rural revival is going to be.”

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The day in the markets

What you need to know

- Airlines climb on Wall Street after traveller data pass 1m threshold
- Pick-up in coronavirus infections weigh on European stocks
- Pound above \$1.30 as traders look past Brexit brinkmanship

Global equities wavered between modest gains and losses as investors weighed the worsening pandemic in Europe against renewed hopes that Washington would sign off on a US stimulus deal.

Nancy Pelosi, the Democratic speaker of the US House of Representatives, said at the weekend she was “hopeful” that a deal could be agreed before November’s presidential election but she stressed it had to be approved by today.

The news gave markets some “hope in what has become a bit of a dance in recent weeks”, said Jim Reid, a macro strategist at Deutsche Bank.

Airlines stood out among companies on Wall Street with the sector climbing after news that more than 1m travellers passed through US airport checkpoints last Sunday, the first day that threshold has been crossed since March.

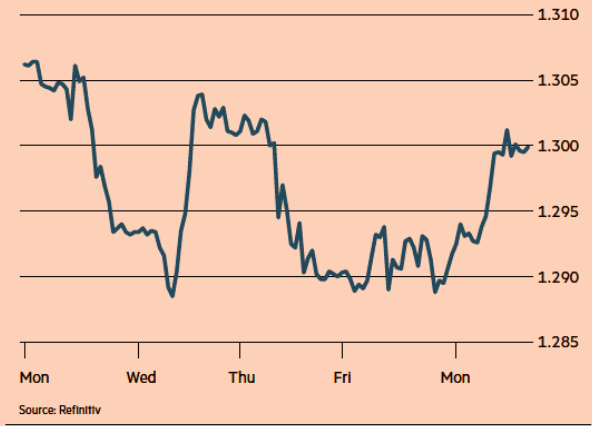
The milepost left the NYSE Arca Airline index up 3.8 per cent at lunchtime in New York compared with the 0.3 per cent slide for the broader S&P 500 index.

The Nasdaq Composite was down 0.4 per cent, although the tech-heavy index remained almost 10 per cent above a recent low point hit in September.

Tech stocks may climb further from here, said Geir Lode, head of global equities at Federated Hermes.

“Enactment of stricter measures to combat the second wave of Covid-19

Sterling climbs on expectations of Brexit deal
Against the dollar (\$ per £)



globally has once again prompted investors to consider industries that have thrived during the pandemic,” said Mr Lode, who added that the “new iPhone launch will keep the tech behemoths in the limelight”.

In Wisconsin, Covid-19 cases hit a record of 3,861 last Friday while the spread of virus picked up across Europe with Belgium imposing new restrictions on bars and restaurants and Wales rolling out a two-week lockdown from Friday.

The region-wide Stoxx Europe 600 slipped 0.3 per cent alongside falls on bourses in Frankfurt, Paris and London.

The pound strengthened against the dollar, rising as much as 0.8 per cent \$1.3023, as traders shrugged off the worsening coronavirus situation in the UK and bet on Britain being able to secure a trade deal with the EU.

Helping lift sterling was also a tweet from Michel Barnier, the EU chief Brexit negotiator, who said Brussels “remains available to intensify talks”.

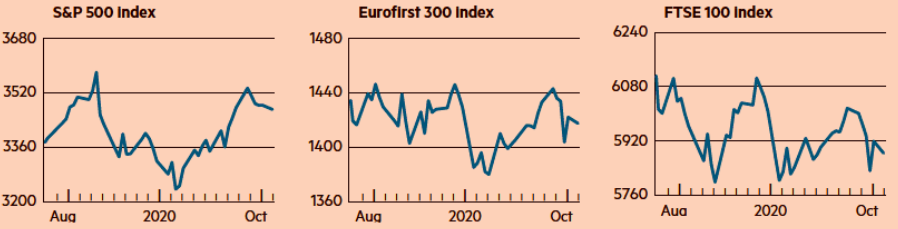
“Talks will probably drag on until mid-November,” said Brown Brothers Harriman, but “we expect a face-saving skinny deal, which already seems priced in by the markets”. Ray Douglas

Markets update

	US	Eurozone	Japan	UK	China	Brazil
Stocks	S&P 500	Eurofirst 300	Nikkei 225	FTSE100	Shanghai Comp	Bovespa
Level	3471.46	1417.58	23671.13	5884.65	3312.67	99714.75
% change on day	-0.35	-0.32	1.11	-0.59	-0.71	1.43
Currency	\$ index (DXY)	\$ per €	Yen per \$	\$ per £	Rmb per \$	Real per \$
Level	93.273	1.178	105.470	1.300	6.693	5.600
% change on day	-0.437	0.512	0.052	0.541	-0.064	-0.627
Govt. bonds	10-year Treasury	10-year Bund	10-year JGB	10-year Gilt	10-year bond	10-year bond
Yield	0.762	-0.629	0.021	0.169	3.188	7.326
Basis point change on day	1.750	-0.700	0.240	-1.200	-4.300	-13.100
World Index, Commods	FTSE All-World	Oil - Brent	Oil - WTI	Gold	Silver	Metals (LMEXO)
Level	384.02	42.89	41.23	1905.05	24.36	3045.60
% change on day	-0.01	0.21	1.15	0.70	1.78	0.22

Yesterday's close apart from: Currencies – 1600 GMT; S&P, Bovespa, All World, Oil – 1700 GMT; Gold, Silver – London pm fix. Bond data supplied by Tullett Prebon.

Main equity markets



Biggest movers

%	US	Eurozone	UK
Ups			
	United Airlines Holdings 6.66	Lufthansa 5.74	Int Consolidated Airlines S.a. 4.41
	National Oilwell Varco 4.24	Atlantia 4.62	Informa 2.65
	Technipfmc 3.85	Adp 3.45	Standard Chartered 2.38
	Alaska Air 3.48	Oci 3.07	Next 2.22
	Pvh 3.10	Saipem 2.74	British Land 2.10
Downs			
	Eog Resources -2.69	Saint Gobain -7.98	Gvc Holdings -2.44
	Regeneron Pharmaceuticals -2.43	Philips -3.87	Dcc -2.21
	Vf -2.29	Fresenius -2.38	Pennon -2.09
	Viacomcbs -2.24	Christian Dior -2.34	Flutter Entertainment -2.07
	Nordstrom -2.05	Thyssenkrupp -2.30	Imperial Brands -2.05

Prices taken at 17:00 GMT

Based on the constituents of the FTSE Eurofirst 300 Eurozone

All data provided by Morningstar unless otherwise noted.

Wall Street

Halliburton rose after reporting adjusted net income of \$100m in the third quarter that beat analyst estimates, lifting fellow oil services groups Baker Hughes and Schlumberger.

Halliburton’s “ability to expand margins and generate positive free cash flow despite falling revenue suggests management’s restructuring and cost-cutting . . . are firing on all cylinders”, said Nicholas Green, analyst at Bernstein.

Apparel retailers Under Armour and Calvin Klein parent PVH advanced as hopes of a US stimulus package lifted stocks sensitive to economic growth.

RBC raised its price target for Gap, sending the clothing group higher.

Cinema chain AMC surged after it said some of its theatres throughout New York state would resume operations from Friday following an easing of restrictions.

Carriers United Airlines, American Airlines and Delta Air Lines gathered pace after more than 1m travellers passed through US airport checkpoints on Sunday, making it the first day that threshold has been crossed since March when coronavirus lockdowns began.

L Brands gained after JPMorgan raised its price target for the owner of lingerie brand Victoria’s Secret from \$42 to \$50 a share on strong growth expectations for its Bath & Body Works brand, even beyond the pandemic. Harry Dempsey

Eurozone

Exchange operator Euronext advanced despite a glitch that temporarily halted equities trading in several major markets across Europe, including Paris, Amsterdam and Lisbon at the start of corporate earnings season.

The stoppage began just before 10am in Paris and was not resolved until 12.45pm.

But investors remained bullish on the stock, buoyed after it agreed to buy Borsa Italiana earlier this month.

Swedish defence contractor Saab retreated after it warned of increased risk due to a protracted pandemic recovery.

The manufacturer booked a SKr1.1bn (\$125m) hit to operating income related to supply chain risks in the delivery of its Gripen fighter aircraft and a further charge related to other programmes.

Jefferies analysts said the charges were “both unexpected and initially likely to generate significant caution”.

Forecast-beating inflows of new money and improved profitability in the third quarter lifted Swiss private bank Julius Baer.

Credit Suisse and UBS rose following the bank’s positive update.

Dutch healthcare technology group Royal Philips rose after reporting a 10 per cent rise in third-quarter sales, driven by orders for its ventilators and patient monitors. Harry Dempsey

London

IWG, which runs Regus shared offices, shot up after Berenberg raised it from “hold” to “buy” and added the FTSE 250 group to its top picks among UK mid-caps.

“While the company has been materially affected by the pandemic, management has managed the crisis exceptionally well and we see a variety of potential positive catalysts in the near term,” they said.

Those catalysts were supported by a quicker than expected recovery and its capital-light franchise strategy, the analysts said.

Travel groups Tul, easyJet and Ryanair rose after news that the UK regional airline Flybe was being bought out of administration with the hope of flying again by early 2021, bringing some cheer to the beaten-down sector.

Cinema reopenings for AMC in New York made waves across the Atlantic as Cineworld climbed.

Boohoo tumbled after it confirmed that PwC would not participate in the competitive tender process to audit the online fashion retailer, meaning that it will step down as its auditor after six years.

The accounting firm held concerns about the risks of continuing to work for the online group, which has come under scrutiny for suppliers paying workers below the minimum wage. Harry Dempsey

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FINANCIAL TIMES SHARE SERVICE

Main Market

[illegible]

AIM

	52 Week							Vol	52 Week							Vol	52 Week							Vol	52 Week							Vol	52 Week							Vol											
	Price	+/-Chg	High	Low	Yld	P/E	00d		Price	+/-Chg	High	Low	Yld	P/E	00d		Price	+/-Chg	High	Low	Yld	P/E	00d		Price	+/-Chg	High	Low	Yld	P/E	00d		Price	+/-Chg	High	Low	Yld	P/E	00d												
Aerospace & Defense																																																			
Cohort	575.00	-3.00	736.00	416.05	1.64	24.74	5.9																																												
Wing Dynamics PLC	16.00	-1.00	44.96	12.00	-	4.40	17.5																																												
Banks																																																			
Caribbean Inv	41.50	-4.50	64.45	13.12	-	3.20	7.9																																												
Basic Resource (Ex Mining)																																																			
CopperJr	925.00	25.00	1480	580.00	1.46	16.28	4.2																																												
Chemicals																																																			
Directa Pls PLC	69.00	1.00	92.00	46.25	-	-11.63	14.9																																												
Verana PLC	131.40	4.00	296.00	82.00	2.21	4.12	38.8																																												
Scorpion PLC	35.00	2.40	114.	21.20	-	-14.52	387.9																																												
Construction & Materials																																																			
Abbey	195.00	-	196.00	190.00	0.62	14.21	6.1																																												
Chubb	86.00	-4.10	106.62	60.00	-	48.70	11.7																																												
Electric	1.23	-	3.16	0.75	-	2.66	15.1																																												
Aerospace & Electrical Equip																																																			
Cenchrp	750.00	25.00	755.00	206.00	-	-246.18	229.0																																												
Omni	49.50	2.50	85.00	22.00	-	4.12	12.2																																												
LPA	87.50	8.50	117.00	56.00	1.26	31.47	42.8																																												
ThorFW	29.00	-2.00	36.33	22.50	1.18	22.98	4.7																																												
Zyronic																																																			
Price	115.00	-	258.50	70.00	19.83	9.86	12.0																																												
Financial General																																																			
Appropriate Grp	26.50	0.10	66.40	24.00	8.08	6.89	8.4																																												
Adjustment	7.50	0.00	140.00	60.00	2.18	28.82	2.4																																												
BPM Marsh	269.00	-	276.02	132.00	1.77	7.71	10.3																																												
Barford Capital Ltd	761.50	36.50	987.68	250.43	1.28	10.44	294.5																																												
Greathouse House	73.00	-	267.00	45.00	0.61	8.02	30.9																																												
Landis	11.50	-	20.00	7.50	-	-1.07	50.0																																												
MarshallWells+	3.50	-	86.00	29.00	0.50	0.00	3.3																																												
Nutris	298.00	0.00	324.00	185.00	0.03	34.65	12.8																																												
Polaris Group	128.00	12.00	614.00	26.00	6.25	12.78	100.1																																												
Prisma Mktg Spt	104.00	0.50	192.00	65.00	10.00	9.56	73.5																																												
STEM Group Ltd	17.00	-	43.60	18.00	5.56	16.66	3.10																																												

Investment Companies

Conventional - Property CIs										Conventional - Property CIs										Conventional - Property CIs											
Price										Price										Price											
v/w Chg										v/w Chg										v/w Chg											
52 Week										52 Week										52 Week											
Low										Low										Low											
High										High										High											
NAV										NAV										NAV											
Orcl										Orcl										Orcl											
BMO UK HT B	78.00	-	103.00	60.00	5.03	36.3	-8.3			IPST Mngd	101.50	-	104.00	96.00	1.58	10.3	-3.6			PerSept	455.00	138.00	47.000	376.00	1.2	449.84	1.3				
BMO UK HT B	30.00	-	406.00	224.00	-	48.3	-9.3			IPST UK Eq	144.00	1.50	192.00	104.00	4.58	146.3	-3.5			PolarTech	241.50	-	150	258.00	163.00	87	276.1	-12.5			
Brunner	803.00	-	300	926.00	50.00	2.49	91.7	-12.5		IPK Amer	398.50	3.50	640.00	285.17	4.74	48.1	-18.3			PolarTech	241.50	-	150	258.00	163.00	87	276.1	-12.5			
California Inv	26.00	-85.00	31.95	19.20	3.22	263.7	-2.1			JPJ Amer	53.00	50.00	546.58	328.52	1.22	56.2	-5.1			PolarTech	241.50	-	150	258.00	163.00	87	276.1	-12.5			
Carden Cos	28.15	-	29.15	-	0.12	46.20	2.36	44.0	-36.0	JPJ Asia	48.50	-	452.76	27.20	3.59	48.0	2.4			PolarTech	241.50	-	150	258.00	163.00	87	276.1	-12.5			
Charmack	174.50	-	174.50	-	0.00	0.00	0.00	0.00	-	JPJ Euro	17.50	-	17.50	-	0.00	0.00	0.00	0.00	-		PolarTech	241.50	-	150	258.00	163.00	87	276.1	-12.5		
City of New York	62.00	-	61.7	48.50	26.80	57.1	32.1	2.4	-	JPJ Euro	64.00	2.00	64.00	29.40	0.4	60.2	3.6			PolarTech	241.50	-	150	258.00	163.00	87	276.1	-12.5			
COGNATE	125.00	-	100.00	96.80						JPJ Euro	64.00	2.00	64.00	29.40	0.4	60.2	3.6			PolarTech	241.50	-	150	258.00	163.00	87	276.1	-12.5			
Dyn Inc	25.00	-	130.00	30.00	1.02	6.09	113.0	-18.6		JPMcInt	102.50	-	106.00	99.00	0.26	10.3	-5.5			Schroder Tech	454.00	-	200	461.00	244.00	14.1	444.8	0.9			
Dyn Inc	25.00	-	130.00	30.00	1.02	6.09	113.0	-18.6		JPMcInt	102.50	-	106.00	99.00	0.26	10.3	-5.5			Schroder Tech	454.00	-	200	461.00	244.00	14.1	444.8	0.9			
Econ Global	176.50	-	100	188.00	102.63	6.13	52.4	-2.2		JM	82.00	-	95.00	114.00	6.40	5.67	8.5	-3.9			Schroder Tech	454.00	-	200	461.00	244.00	14.1	444.8	0.9		
Econ Global	176.50	-	100	188.00	102.63	6.13	52.4	-2.2		JM	82.00	-	95.00	114.00	6.40	5.67	8.5	-3.9			Schroder Tech	454.00	-	200	461.00	244.00	14.1	444.8	0.9		
Edin Inv	43.00	-	230.00	44.00	32.65	6.19	126.9	-12.9		JPJ Emrg	119.00	1.20	119.00	76.78	1.18	75.5	3.4	-			Schroder Tech	454.00	-	200	461.00	244.00	14.1	444.8	0.9		
Edin Inv	43.00	-	230.00	44.00	32.65	6.19	126.9	-12.9		JPJ Emrg	119.00	1.20	119.00	76.78	1.18	75.5	3.4	-			Schroder Tech	454.00	-	200	461.00	244.00	14.1	444.8	0.9		
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For queries about the FT Share Service pages e-mail
ft.reader.enquiries@morninestar.com

All data is as of close of the previous business day. Company classifications are based on the ICB system used by FTSE (see www.icbenchmark.com). FTSE 100 constituent stocks are shown in bold.

Closing prices are shown in pence unless otherwise indicated. Highs & lows are based on intra-day trading over a rolling 52 week period. Price/earnings ratios (PER) are based on latest annual reports and accounts and are updated with interim figures. PER is calculated using the company's diluted earnings from continuing operations. Yields are based on closing price and on dividend paid in the last financial year and updated with interim figures. Yields are shown in net terms; dividends on UK companies are net of 10% tax, non-UK companies are gross of tax. Highs & lows, yields and PER are adjusted to reflect capital changes where appropriate.

Trading volumes are end of day aggregated totals, rounded to the nearest 1,000 shares.

Net asset value per share (NAV) and split analytics are provided only as a guide. Discounts and premiums are calculated using the latest cash fair net asset value estimate and closing price. Discounts, premiums, gross redemption yield (GRY), and hurdle rate (HR) to share price (SP) and HR to wipe out (WO) are displayed as a percentage, NAV and terminal asset value per share (TAV) in pence.

- * FT Global 500 company
 ♦ trading ex-dividend
 ■ trading ex-capital distribution
 # price at time of suspension

The prices listed are indicative and believed accurate at the time of publication. No offer is made by Morningstar or the FT. The FT does not warrant or guarantee that the information is reliable or complete. The FT does not accept responsibility and will not be liable for any loss arising from the reliance on or use of the information.

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Data provided by Morningstar



MANAGED FUNDS SERVICE

	Bid	Offer	+/-	Yield		Bid	Offer	+/-	Yield		Bid	Offer	+/-	Yield		Bid	Offer	+/-	Yield		Bid	Offer	+/-	Yield
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MANAGED FUNDS SERVICE

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Guide to pricing of Authorised Investment Funds: (compiled with the assistance of the IMA. The Investment Management Association, 65 Kingsway, London WC2B 6TD. Tel: +44 (0)20 7831 0898.)

OEIC: Open-Ended Investment Company. Similar to a unit trust but using a company rather than a trust structure.

Different share classes are issued to reflect a different currency, charging structure or type of holder.

Selling price: Also called bid price. The price at which units in a unit trust are sold by investors.

Buying price: Also called offer price. The price at which units in a unit trust are bought by investors. Includes manager's initial charge.

Single price: Based on a mid-market valuation of the underlying investments. The buying and selling price for shares of an OEIC and units of a single priced unit trust are the same.

Treatment of manager's periodic capital charge: The letter C denotes that the trust deducts all or part of the manager's/operator's periodic charge from capital, contact the manager/operator for full details of the effect of this course of action.

Exit Charges: The letter E denotes that an exit charge may be made when you sell units, contact the manager/operator for full details.

Time: Some funds give information about the timing of price quotes. The time shown alongside the fund manager's/operator's name is the valuation point for their unit trusts/OEICs, unless another time is indicated by the symbol alongside the individual unit trust/OEIC name.

The symbols are as follows: ♣ 0001 to 1100 hours; ♠ 1101 to 1400 hours; ▲ 1401 to 1700 hours; # 1701 to midnight. Daily dealing prices are set on the basis of the valuation point, a short period of time may elapse before prices become available. Historic pricing: The letter H denotes that the managers/operators will normally deal on the price set at the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers/operators must deal at a forward price on request, and may move to forward pricing at any time. Forward pricing: The letter F denotes that that managers/operators deal at the price to be set at the next valuation.

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Morningstar Fund Ratings

EAA Fund UK Equity Income

Name	ISIN	Currency	NAV	Total Ret 1Yr	Total Ret 3Yr	Total Ret 5Yr	12 Month Yield	Ongoing Charge	Fund Size	Morningstar Rating ™	Morningstar Sustainability Rating™	Morningstar Analyst Rating™	Morningstar Analyst Rating Date	Morningstar Analyst
Trojan Income O Acc	G800B01BP176	Pound Sterling	3.25	-7.11	0.0%	3.59	3.55	1.02	3,52,58,00,844.00	★★★★★		Silver	04/12/2019	David Holder
Artemis Income R Inc	G800O6S72464	Pound Sterling	1.85	-13.78	-3.00	2.24	4.71	1.55	4,19,28,32,550.00	★★★		Bronze	29/07/2020	Bhavik Parekh
Threadneedle UK Eq Inc Rtl Inc GBP	G800K1448900	Pound Sterling	0.79	-12.25	-4.00	2.22	3.75	1.59	3,37,52,63,241.00	★★★★		Bronze	14/01/2020	Fatima Khizoo
Franklin UK Equity Income A Inc	G800B6VBM744	Pound Sterling	1.94	-14.61	-4.00	2.19	4.84	0.98	80,25,48,301.00	★★★★		Silver	11/09/2020	Samuel Meekin
Fidelity MoneyBuilder Dividend	G800C3860904	Pound Sterling	2.04	-11.93	-4.00	-0.05	5.88	1.17	52,18,83,175.00	★★★★		Bronze	19/11/2019	Fatima Khizoo
Royal London UK Equity Income A	G800B6TNR655	Pound Sterling	5.93	-18.36	-5.00	1.10	4.42	1.35	1,72,32,26,927.00	★★★★		Bronze	22/07/2020	Robert Starkey
Rathbone Income R Inc	G800M1229045	Pound Sterling	6.94	-15.21	-5.00	0.11	5.47	1.53	75,69,42,703.00	★★★★		Neutral	17/12/2019	Bhavik Parekh
Man GLG Income Retail Inc B	G800B0117B11	Pound Sterling	0.85	-19.82	-6.00	1.71	6.82	1.65	89,66,86,424.00	★★★		Bronze	31/03/2020	Samuel Meekin
Jupiter Income Trust	G800D4791389	Pound Sterling	3.76	-25.25	-9.00	-0.61	5.00	1.69	1,17,27,07,443.00	★★		Bronze	08/07/2020	Robert Starkey
Schrodor Income Acc	G800D7649196	Pound Sterling	67.63	-27.46	-10.00	-1.48	6.32	1.66	1,23,53,50,912.00	★★		Bronze	21/01/2020	Robert Starkey
MSCI Benchmark				-13.44	-3.44	2.84							Sorted by Annualised 3yr Total Return of NAV (highest to lowest).	
Morningstar Category Benchmark				-15.60	-5.43	0.32							For important information about Morningstar Analyst Rating please go to: http://global.morningstar.com/NAVGdisclosures	

Sorted by Annualised 3yr Total Return of NAV (highest to lowest).

For important information about Morningstar Analyst Rating please go to: <http://global.morningstar.com/managerdisclosures>



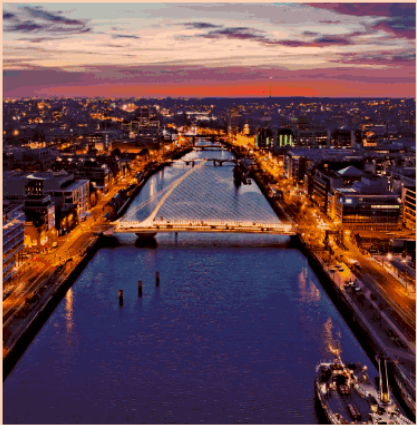
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ARTS

Michael Angelo Covino's directorial debut, *'The Climb'*, triumphed in Cannes last year – now, after a Covid freeze, it is finally being released. He talks to Raphael Abraham

This is a story of two halves. It begins in 2019 at the Cannes Film Festival, where American comedy *The Climb* has just premiered in the Un Certain Regard section to a packed house. The reception is rapturous, the audience on their feet and left smiling by the film – a tale of two thirtysomething friends bonded and battered by shared experience and betrayal, who remain inseparable no matter what life throws at them and they throw at each other.

Most eyes are on Michael Angelo Covino, the movie's first-time director, star and co-writer, who looks endearingly dumbstruck and lightly dishevelled (much like his screen character), even in a tuxedo. Beside him is his co-writer, co-star and real-life friend Kyle Marvin, amiable and similarly overawed.

The next day I meet Covino, 35, at a beachside bar. He is slightly worse for wear and exudes the giddiness that comes with overnight success. "It was wild," he says, still dazed. "A wild experience." There have been rave reviews from critics (including this one) for his bittersweet, character-driven comedy, which, though it is the kind of American indie that would look at home at Sundance, also has a distinctly European sensibility, with an eclectic soundtrack of vintage chansons and an opening scene set in mountains not far from Cannes.

It is here, on the eve of his old buddy Kyle's wedding, that so-called best man Mike reveals that he has slept with Kyle's French fiancée. That they are on bikes, huffing and puffing up a steep hill all the while, adds a delightful layer of comic absurdity to the moment. It also seems like a metaphor for the Sisyphean slog of this life-long bromance. If friendship, as Aristotle put it, is a ripening fruit, this one comes with a few bruises.

For Marvin and Covino too it had been a long road to *The Climb*. "We've written so many scripts, so many features that haven't gotten made," says New Yorker



Comedy that came in from the cold



Covino. While waiting for one of these scripts to be picked up, he became a producer, making five movies for others and learning about the business along the way. "I tried to make my first feature as a director many times, and I think I was very lucky not to have those made,"

Top: actor and director Michael Angelo Covino. Above: Covino, right, with Kyle Marvin in 'The Climb' Loic Venance/AFP via Getty Images

he reflects with the benefit of hindsight. "It's so wild to say that now."

For audiences too it is worth the wait. As well as being hilarious and touching, *The Climb* is surprisingly cinematic for a comedy, with long, unedited tracking shots that sometimes stray from the main action to reveal unexpected nuances. "I figure if I'm going to make a first film, I might as well go for it," Covino explains. "There's an immediacy to not cutting and just staying with characters. If the performances are working, you don't want to look away."

Part of the benefit of this approach is that the performances have space to breathe and much of the humour arises naturally from believable situations – a rare sight in today's landscape of wacky and high-concept comedies. Where, I wonder, have all the character-based comedies gone? "You're opening a can of worms here," he says. "There aren't a lot of comparables any more for this film. So when there aren't comparables, the movies don't get made. And that's a broken system."

For this he blames a lack of risk-taking on the part of studios, which are more inclined to follow the herd of proven cash cows. "You have a system that says 'Now everyone needs to make *Get Out*'. That's crazy because the reason *Get Out* was amazing was that it was fresh and original and new." This, he says, has resulted in a flawed formula, "the idea that the jokes have to hit at a certain pace and they have to get X number of laughs".

For Covino, the answer lies in putting greater trust in characters and story. "When you watch a great Woody Allen film or *When Harry Met Sally*, you care about the journey. That's why we have such a nostalgia for those rich comedies of the past. You don't get a joke a

minute, you get jokes where the jokes land and you get great performance and truth. Those are the things I long for when I go to the movies."

As our conversation begins to wind up, Marvin ambles over to join us. I take the opportunity to ask the obvious: how much does their real-life friendship resemble their screen one? "Well I haven't slept with his wife . . . yet," grins Covino, sending Marvin into a fit of giggles. "I'm working on it but she's a tough nut to crack." In case this sounds like oafish bro-humour, the women in *The Climb* give as good as they get, and the meanest jokes are all aimed squarely at the two loser leads.

Covino and Marvin are a winning double act both onscreen and off. A few days after our meeting, *The Climb* is awarded the Coup De Coeur by a Cannes jury. Then comes a more lucrative prize: Variety reports that Sony Pictures has bought worldwide rights and will release the film in March 2020. And Covino's year is still not over: soon after Cannes,

he is cast in Paul Greengrass's upcoming *Western News of the World* and finds himself acting alongside Tom Hanks. It seems he is living a charmed life.

Cut to: October 2020. Covino and I are recalling our previous meeting. "Whatever the opposite of that Cannes high is, this is it," he tells me on a Zoom call from his New York apartment, his natural hand-dog expression having drooped a little further.

Dare I ask what happened next? "We played all the festivals that we'd dreamt of playing: Toronto, London, Telluride, Sundance. It was one of those special experiences that you can't imagine happening, but it happened. And then we were four days from releasing and every theatre in America shut down."

March became July. July became September. Now September has become November and the film is finally set for US release, even though theatres in New York and LA are closed. Covino is doing his best to remain philosophical. "Things can only go so well for so long," he observes. "When you become a film-maker and an actor you learn to temper expectations because it's the

'I tried to make my first feature as a director many times, and I think I was very lucky not to have those made'

only way you can survive mentally. It's not because you're pessimistic, but you have to wait until it's fully done because anything can happen."

It seems an inescapable irony that this turbulent experience mirrors the ups and downs chronicled in *The Climb*. So how has the partnership with Marvin weathered the storm? "Kyle!" shouts Covino, and soon Marvin shambles sleepily into view, having just woken up after a late-night writing session. The two are evidently closer than ever and writing together every day. It's heartening to know that whatever the weather, the friendship endures, as yet untroubled by marital infidelity.

"It still hasn't happened," confirms Covino, his dastardly grin returning. "It probably would have if this whole quarantine thing hadn't transpired. Social distancing has made it *much* harder to sleep with your best friend's wife."

'The Climb' is in cinemas in the UK from October 23 and in the US from November 13



From left, Gayle Rankin, Kyle Marvin and Michael Angelo Covino in 'The Climb'

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Royal Opera finds a route back with '4x4'

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It must be touch-and-go. Following the path set by some of their European counterparts, the prime concert halls and opera houses in London are starting to open their doors to live audiences – but is this just in time to close them again for the next lockdown?

The problems caused by the pandemic are especially acute in opera. With the large numbers of performers involved and the size of most traditional opera houses, it is barely feasible to work in a stop-go environment. Either they need to be completely open or closed.

The solution at the Royal Opera is to offer a drastically pared-down programme. There will be no fully staged operas this side of Christmas, but in their place come concert performances and smaller staged events.

This revised schedule kicked off at the weekend with a quartet of vocal works – none of them actually an opera – under the title "4x4", as though firing on all cylinders. A socially distanced audience attended the single performance in the theatre and the live stream remains available to view on demand for a fee until November 15.

The concept was interesting, the works were nicely varied, the performers mostly strong. The disadvantage was the size of the theatre. While one sympathises with the desire to draw in a decent number of people under social distancing regulations, these were

small-scale pieces that belonged in a more intimate venue than the Royal Opera House's main auditorium.

Seen live in the theatre, Handel's charming *Apollo e Dafne* felt lost and overlong, though it may work better online. The cantata tells of the amorous stand-off between the bragging god Apollo and heavenly nymph Daphne, a clash of personalities that gained little from being staged. Alexandra Lowe's gleaming Daphne fared better than the unstylish Apollo of Jonathan McGovern, though his closing lament was touching, and both benefited from Christian Curnyn's musical direction.

Each item represented a step up on the one before. The music of Barber's *Knoxville: Summer of 1915* is so saturated in the atmosphere of a sultry Tennessee evening that little in the way of a staging was necessary; Masabane Cecilia Rangwanasha's resonant soprano stretched and wrapped itself around Barber's grateful singing lines with satisfying richness. Patrick Milne conducted.

Britten's *Phaedra*, an inspired late cantata, felt easily the most theatrical. Like a high-powered scene from a full opera, it takes the singer through the gamut of emotions and Christine Rice made a splendidly intense job of it, bolstered Richard Hetherington's urgent conducting. Deborah Warner's cryptic staging seemed to involve a modern woman uncovering the shrouded bodies of Greek mythology.

That left HK Gruber's cabaret-gone-mad *Frankenstein!*, a so-called "pan-demonium". Gruber wrote it to perform himself and its solo song-and-dance parade of heroes and villains, from Dracula to Batman and Goldfinger, is a showpiece for anybody who can bring it off. Tenor Allan Clayton did, adding to his already burgeoning tally of skills, and he was admirably seconded by Edmund Whitehead as conductor and the typically deadpan humour of Richard Jones's staging.

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FT BIG READ. EU TRADE

The prospect of a no-deal exit concerns Belgium’s Dutch-speaking north, one of the European regions most closely integrated with the UK economy. Food producers and other key industries could lose out.
By Sam Fleming and Jim Brunsten

Striding between crates of conference pears stacked in a cavernous warehouse, Marc Evrard says business with Britain has actually been very stable since the 2016 Brexit referendum. There were some abrupt movements in the exchange rate between the pound and euro after the vote but, other than that, Belgium’s biggest fruit-growing co-operative has seen few disruptions in its trade with the UK. That beguiling period of continuity is soon to end. Mr Evrard, the commercial director of Belgian Fruit Valley (BFV), which encompasses over 1,000 fruit growers, reels off a long list of unknowns he now confronts in trading with the UK, a key export market. They range from the possible imposition of tariffs on exports and new customs requirements to food inspections and potential border delays. “There are a lot of uncertainties there, and each specific one might have a considerable impact,” says Mr Evrard. “If there were some clarity it would make preparations easier.” The prospect that the UK could leave the single market on December 31 without a trade deal in place would be hugely disruptive for British business, which counts the EU as its largest trading partner. But Belgium’s fruit growers, which produce a third of the world’s ‘No deal would have a very negative impact on Flanders. It is these economic consequences that we’re trying to avoid’

conference pears, are just one example of how failure to strike a tariff-free, quota-free agreement would also be a blow to businesses in a host of EU members. In Belgium, a country that is one of the most economically exposed EU member states to Brexit, a no-deal outcome could cost tens of thousands of jobs. Most of those losses would be in the country’s Dutch-speaking north, as Flanders is one of the EU regions most closely integrated with the UK. With only 10 weeks remaining until the end of Britain’s post-Brexit transition period, and with it the country’s 40-year membership of the single market and customs union, businesses across Flanders are holding their breath. “The numbers are clear. A no-deal would have a very negative impact on Flanders,” says Hilde Crevits, economy minister for Flanders, one of Belgium’s three regional governments. “It is precisely these economic consequences that we are trying to avoid.” It is a feeling shared across the continent as businesses and governments await what Michel Barnier, the EU’s chief negotiator with the UK, has described as “economic Brexit”, which looms at the end of the year following the legal divorce on January 31. That anxiety only increased on Friday after Boris Johnson warned that the UK would leave its post-Brexit transition period without a trade deal unless there was a “fundamental change of approach” by the EU. Both sides are stepping up contingency planning for a no-deal outcome, even while contact continues.

Close relationship
Flanders’ economy has been deeply wired into the UK’s for centuries. It is a trading relationship ranging from fruit to cutting-edge industrial machinery and chemicals, making it a microcosm of the stresses that will hit the EU once one of the single market’s biggest members departs. Some 8 per cent of Flanders’ goods exports go to the UK, making it only marginally less reliant on the UK market than Ireland, at just over 10 per cent. But that figure downplays the deep integration of the Flanders region with the UK, which includes supply chains for complex goods such as machinery and cars. The country’s ports of Antwerp and Zeebrugge are among the principal trade links between the UK and continental Europe. The Antwerp region has also thrived as a petrochemicals cluster in part thanks to close co-operation with the UK, while the British predilection for fitted carpets has sustained the modern descendants of Flemish weavers for generations. According to research from Hylke Vandenbussche, a professor at Catholic University of Leuven, a hard Brexit without a trade deal would lead to 42,000 job losses in Belgium, two-thirds of which would fall in Flanders. The region accounts for 85 per cent of total Belgian exports to the UK. According to studies cited by the Flemish government, it would still face a 1.8 per cent hit to GDP even if Britain and Brussels manage to agree a basic trade deal. It is a reminder that much is at stake, especially the threat of duties that will



Above: places such as Antwerp container terminal rely on trade flows between the UK and the EU. Below right: processing pears at Belgian Fruit Valley
FT montage/Getty



hit the competitiveness of agricultural products. UK tariffs on different types of pears, for example, would range from 0 per cent to 25 per cent depending on whether and how they are processed and the time of year they were imported. The potential risks from a no-deal Brexit extend beyond tariffs to everything from lost opportunities for joint scientific research to a lack of co-operation between UK and EU authorities to ease the burden of customs procedures. After a tumultuous few days during which the UK put the talks on hold, the fate of the negotiations now hangs in the balance. EU leaders such as Germany’s Angela Merkel insist that a deal remains possible, and would be “good for both sides” — but that Britain must show real willingness to compromise. The EU side blames Britain’s intransigence in failing to offer sufficient guarantees of fair competition for European companies, notably in the area of state aid. The UK, for its part, has lashed out against Europe’s determination to hang on to fishing rights in Britain’s sovereign waters. Belgium is at the heart of that Brexit dilemma over fish. Its economy, particularly that of Flanders, yearns for the reassurance of an EU-UK trade deal, but the country is also one of eight coastal nations fighting to safeguard rights for its fishermen in Britain’s waters — an issue that is one of the biggest barriers to the talks succeeding. Flemish politicians have referred back to fishing dispensations granted by 17th-century English King Charles II to show the deep historical roots of their demands for continued access — another example of the interlinkages affected by Brexit. The “Fisheries Privilege Charter” issued by the Restoration monarch in 1666 grants 50 boats from Bruges in western Flanders the perpetual right to fish in British territorial waters. “A first legal analysis indicates that — should no agreement be found between the EU and the UK on access to the 12-mile zone — this Privilege Charter still applies,” says Ms Crevits. Should this be borne out by a more in-depth legal

assessment currently under way, “Belgium will not fail to invoke the privilege”, she says, noting that more than 50 per cent of the revenue made by Flemish fishermen, about €40m a year, comes from fish caught in British waters. “In the event of a hard Brexit, the existence of this entire industry is threatened,” she says. Luisa Santos, chair of BusinessEurope’s EU-UK Task Force, says a no-deal outcome would mean UK-EU trade would not even benefit from basic co-operation arrangements in place with other countries. The EU and China have agreements in place to streamline customs procedures for recognised, trusted traders, even though the two economies do not have a preferential trade deal. “Trading between the EU and UK will become substantially more complicated, and then you have the duties that in some cases are extremely high. This will have an impact on supply ‘If you lose a day by a delay at the borders, it is 20% less shelf life: that might change the way our customers deal with the product’

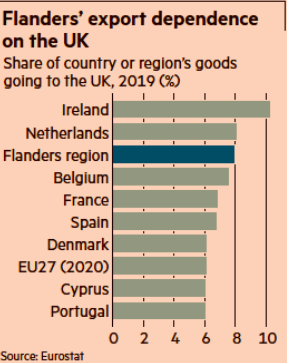
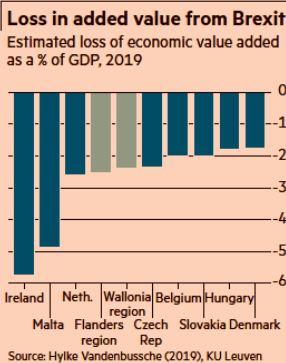
chains that are very, very integrated,” she says. A trade deal would also be more than the sum of its parts, she says: “Even if the deal is very basic and doesn’t have everything we want to have, in the future maybe we will be able to continue to talk and improve [it],” she says. **Administrative burden** Many businesses in Belgium hold the same view: uncertainty is blighting the private sector’s attempts to prepare for a deadline that is moving ever closer. Some of the country’s exports to Britain face potentially eye-watering tariffs in the event of a collapse in the talks. Job losses in the food and drink processing sector — covering such Belgian staples as chocolate, beer and fro-

zen potatoes — would be steeper than any other sector of the country’s economy, according to the KU Leuven study. The biggest loser in terms of lost output would be textiles. This would be on top of disruption to the trading environment that is the unavoidable consequence of Britain leaving the single market. The EU and UK will pass from an era of seamless cross-border trade to one of customs checks, veterinary assessments for meat and live animals, and VAT formalities. Wim Dillen, international development manager at the port of Antwerp, says it is a “fundamental change — deal or no deal. That administrative burden was zero, it will become 100 per cent.” The changes that will be introduced range from the relatively simple — exporting companies having to apply for an authorisation number from the UK authorities to move goods to the country — to the complexity of completing customs paperwork and safety and security declarations. While the British government creates lorry parks in Kent, and plans to temporarily defer some border requirements, as it works to ward off the threat of endless bottlenecks on the country’s motorways, Belgium has also been preparing — hiring hundreds of new customs officers while ports expand their capacity. Glenn Coolsaet, sales director of Belgian Pork Group, the country’s largest pork producer, which slaughters 40 per cent of the pigs in Belgium, says his “super-fresh” products are among the most sensitive to this new trading environment, with only a five-day shelf life. About 15 per cent of his fresh exports go to the UK — delivered via 20-30 trucks a week, all through the Channel Tunnel. “If you work with super-fresh products, every hour you lose is a bad thing,” he explains. As things stand, UK producers including sausage manufacturers and facilities that cook hams for the supermarkets can, if they are in the south-east, order a shipment from one of his facilities in Flanders and count on it arriving, via the Channel Tunnel, that same evening.

8% Percentage of Flanders’ goods exports that go to the UK. Of Belgium’s total exports to the UK, 85 per cent are from the Dutch-speaking region
42,000 Analysis of potential job losses in Belgium if the UK opts for a hard Brexit without a trade deal — two-thirds of those would fall in Flanders
€40m Flemish fishing groups’ annual revenue from stocks caught in British waters, about half of their total

“If you lose one day by a delay at the borders, it is 20 per cent less shelf life — that might change the way our customers deal with the product,” he says. “If there are real border controls we could have big, big delays.” Belgian Pork Group has its own import operation based in the UK, which will reduce inconvenience for customers there. However, smaller companies may decide it is simply no longer worth selling to Britain given the added complexity and razor-thin margins. **Brexit-ready** Public authorities including the Flemish regional government say one of the most difficult tasks they are facing is the ostensibly simple one of raising awareness about changes within the business environment as a result of Brexit. It is a job made all the more difficult by the climate of uncertainty surrounding the talks, as well as the lack of information from the UK about new regulatory norms, notably for food. A meeting this month of Flanders’ Brexit task force highlighted the problem that small businesses, many never before confronted with trading outside the EU single market, were still not grasping the fact that they would need an authorisation code — known as a “GB EORI number” — to trade with the UK. “We are going from a completely open market with no tariffs and no non-tariff barriers, to a situation where there will be — let’s hope — no tariffs, but a lot of non-tariff barriers,” says Tine Vanderelden, international business manager at the Federation of the Belgian Food Industry, or Fevia. “Our main concern is smaller companies, SMEs, that have not been exporting outside of Europe.”

The European Commission warned EU companies in July that “increased administrative obligations” for trade with the UK “might entail significant changes to the organisation of supply chains”. Failing to reach an agreement would lead to “disruptions that would be more far-reaching”, it added. In Sint-Truiden, at the heart of eastern Belgium’s fruit-growing district, BFV’s Mr Evrard watches the stately procession of thousands of gleaming, wet conference pears along a 100-metre conveyor belt and expresses optimism that “common sense will prevail” in the EU-UK talks. His co-operative opened a trade route for Belgian pears into China 10 years ago, so he is confident that producers can adapt to a changed relationship with the familiar market across the Channel. Nevertheless, the “troublesome element for the moment is we don’t know what changes there will be”, he says. Anything that hampers fluid trade flows between companies and countries is a concern, he says. “Is it going to make it impossible? No. But it is not going to make it easier.”





Why small businesses in supply chains matter, too

Britain's new restrictions risk hurting a big chunk of the economy

Tens of thousands of people who work in Britain's hospitality and leisure industries face a desperately uncertain future as the government imposes tighter restrictions to curb the spread of coronavirus. The closure of pubs and restaurants is the most visible sign of the economic damage these restrictions wreak. Yet further harm is being done out of immediate sight. The hospitality and other affected industries have long supply chains that face an equally bleak future. For every pub or gym that has to shut there will be multiple suppliers, many of them small businesses, that have lost a customer.

The predicament of many of these businesses is made worse by the fact that while they have been hit by the ripple effects of the restrictions, most are not eligible for financial assistance, as they have not directly been ordered to close. Pubs and restaurants in areas designated as tier 2 can remain open but inevitably face a big dent to their custom as people are only allowed to go out with members of their household. As a result, some are facing 30 per cent to 50 per cent reductions in trade.

Behind every big business are many smaller businesses. The new restrictions have highlighted the gaps and anomalies in the government's support measures for small enterprises – in hospitality supply chains and elsewhere. Before Covid-19 struck, close to 6m small businesses employed more than 16m people in the UK. They represent 99 per cent of Britain's private sector companies. Many that survived the national lockdown imposed six months ago will not endure a second or third series of restrictions.

An endless drip-feed of government support for those whose business model has become untenable is not the answer. But policymakers must recognise the role that small businesses play in the wider economy

– both economically and socially. Government support during the first wave of the virus, in the form of emergency loans, business rate relief and the self-employment income support scheme, helped many to survive. There has also been a huge demand for local discretionary grant schemes and bounce back loans, though the latter have been mired in controversy after banks retreated from the scheme.

Chancellor Rishi Sunak now needs to consider more support to prevent what is already a serious economic setback becoming a prolonged slump, triggering mass unemployment. That does not mean blank cheques, but Mr Sunak does need to widen the availability of what has already been put in place, prolong schemes where needed and consider including groups that have previously been left to fend for themselves.

The self-employed have been among the biggest losers, with many falling outside the criteria for the self-employment income support scheme. Limited company directors paid via dividends have never been eligible. This should be reconsidered but with appropriate restrictions in place. Similarly, the new job support scheme should be made available to the widest possible range of employers.

Diversification grants could be offered to help stable businesses find customers in sectors that are less affected by the virus. Consideration should also be given to improving welfare support. Larger companies, too, have a role to play. Their executives should recognise that, in a crisis of this scale, it makes business sense for them to help critical suppliers survive. Not every small business can – or should – be saved. But support measures that help to stem the inevitable flood of redundancies will strengthen the eventual economic recovery.

China risks cementing its structural flaws

An over-reliance on state investment is storing up economic trouble

There is much to admire in China's recovery. Between the second and third quarters, its economy expanded by 4.9 per cent. It is unique among the world's largest economies in that the IMF expects it to avoid a contraction this year. That owes much to Beijing's success in stamping out Covid-19, along with the country's manufacturing prowess. Yet, digging into the numbers, the picture is not quite as rosy as it may seem.

Long before the pandemic, the world's second-largest economy looked dangerously unbalanced. Beijing has placed a tremendous amount of focus on the headline gross domestic product figure as a measure of its economic prowess. A consequence has been that, when growth has been at risk of falling to levels deemed by the Chinese Communist party to be too low, the state has engaged in aggressive intervention.

That intervention has often involved funding projects, notably in the construction sphere, that can have little economic purpose other than to spur demand. It has also led to levels of investment of state-owned enterprises far exceeding the contribution made by the private sector.

Debts by public municipalities ballooned in the aftermath of the 2008 financial crisis. Amid the pandemic, this appears to have happened again. In the first nine months of the year, fixed asset investment by companies not owned by the Chinese state was down 1.5 per cent from a year earlier. For state-owned enterprises it was up 4 per cent in the same period. China commentators have frequently warned that over investment in areas such as real estate was leading to a vast pile-up of probably bad loans.

There are several reasons to think this imbalance between private and public investment – and the resultant

threat to long-term growth – could worsen. China has responded to the pandemic by closing its borders to an extent that it is now nigh-on impossible for foreigners to gain access to it. If representatives of businesses from places such as Germany are no longer able to visit, one would expect to see a drop in inward investment as a result. Geopolitical tensions between China and its trading partners are also having an impact. The friction is not only with the US. The Japanese government has said it will pay companies to stop using Chinese factories. South Korea has adopted a similar strategy.

China has sought to rectify this global retrenchment through a model which President Xi Jinping has dubbed "dual circulation". The idea formalises a long-touted push to provide more growth through domestic demand, allowing the economy to survive a decoupling from the rest of the world by consuming more of its own produce itself.

There are signs that domestic demand is faring better. Imports surged to their highest level so far this year in September. Retail sales have also recovered – though at a slower pace than overall GDP. Yet household consumption makes up less than 40 per cent of output here, compared with about 65 per cent to 70 per cent in most advanced economies.

China's return to growth is the one real bright spot in a dismal global outlook. Its resurgence has helped provide impetus for strong export figures elsewhere too, notably in Europe. It is in no one's interest for it to falter as second waves of caseloads are threatening to trigger double-dip recessions in other advanced economies. However, without a revival in private investment, there is a risk that any boost in the coming quarters will rely too heavily on factors that in the long term threaten to do more harm than good.

Letters

A licensing system could solve the Brexit impasse over fishing

The hold-up on fisheries negotiation between the UK and the EU will not be resolved by a "no-deal" approach (The FT View, October 19).

Without a deal there would be long-lasting disputes and even potential clashes at sea between British and EU fishing vessels, to the detriment of our relationships with the EU and with our Nato allies. The resolution to this problem could be found in a simple licensing arrangement, whereby EU

fishing vessels could, for a fee, receive a licence to fish in British waters.

The licence fee would be spent preserving fish stocks, for the benefit of all, and an added benefit could be the granting of permission for EU fishing vessels to sell their catch in UK ports, without any tariff, when the prices are advantageous for them to do so.

In return, British fishing vessels could land their catches in EU ports, if they wished, with no tariffs. The

number of licences given to EU vessels would be limited, and there would have to be a renewal system, say, every three years. The amount of British catches sold in EU ports would be the same as the tonnage licensed to the EU ships. There would need to be careful recording of amounts landed, but this would be needed anyway to preserve fish stocks.

This would be a proportional deal, where both sides gain benefits. Besides

those advantages outlined above, there would be opportunities to take their catches to countries where there is consumer demand for the species of fish caught. In time, joint UK/EU-based companies might be formed to create distinct profit-enhancing possibilities, which would strengthen our fishing industries, as well as those of our European neighbours.

Shaun Tyson
Pytchley, Northamptonshire, UK

Dollar collapse would seal America's calamitous fate

As an American, I was not surprised by Edward Luce's rather bleak prediction of America's future in his critical analysis of a possible constitutional crisis (Magazine, FT Weekend, October 17). We face a more disturbing scenario. A calamitous future would be a concurrent financial collapse of the debt-ridden, unbacked, global fiat monetary system. Such a scenario is difficult to comprehend, but it is decidedly probable for those who have studied the history of fiat currencies. It has been over 70 years since the Bretton Woods agreement, when the international monetary system was developed and pegged to the US dollar, as the world's reserve currency, which in turn was based on redeeming dollars for gold.

It has been almost 50 years since US gold-backing was dropped and all currencies became fiat (government sanctioned currency of no intrinsic value based on political, military and other considerations). In other words, under the original Bretton Woods deal, all currencies were effectively backed by gold. All that changed when President Richard Nixon closed the gold window, ending the convertibility of dollars to gold in August 1971.

Mr Luce's article explains, "like so much else in any constitutional democracy, the system ultimately survives because of behavioural codes rather than law. Rules are a confidence trick. If enough people refuse to follow them they cannot be enforced"; and quotes Aziz Huq: "The great secret about the US constitution is that it relies on public acceptance. Without legitimacy, nothing can last for long."

Seemingly, fiat currencies fit this description perfectly. The real test for America will be how it deals with a massive inflating currency of diminishing value with far less purchasing power.

Chris Kniel
Orinda, CA, US

Time for parties to call on UN electoral oversight?

Given concerns over the fairness and impartiality of voting arrangements in many states of the US, why have the Democrats and Republicans failed to ask for a neutral, independent UN mission to provide electoral oversight and assistance? More than 100 countries have requested and have received UN electoral assistance since 1991, the year in which the secretary-general designated the under-secretary-general for political affairs as a focal point for these matters.

Mark Bull
Legal Consultant, Expedited Contract Management Services, Winchester, UK

Barrett could yet provoke an electoral twist of fate

US Notebook

by Courtney Weaver



US election marks a reckoning of conscience

It comes as some relief that Christine Todd Whitman, a Republican, ex-governor of New Jersey, should wish to "Elect Biden to save the Republican party" (Opinion, October 17). The great American journalist and war correspondent Martha Gellhorn opined that "the last defence of civilisation is the rebellion of the individual conscience". It might be hoped that the 2020 presidential election may be the turning point of individual conscience, and it may not be so much a matter of *e pluribus unum* but rather *ex uno plura*.

Don Elliott
Ipswich, Suffolk, UK

Decentralisation of the NHS is a long-term project

It's understandable that Labour leader Keir Starmer looks for failures in Boris Johnson's government to explain why the Covid situation seems out of control again. But it's also possible that the British nation is particularly hard to govern when it comes to a pandemic. The difficulties to get the test and trace system to work (Report, October 16) suggests as much. If over-centralisation of NHS governance is the issue, it seems optimistic to want to mend it with a top-down reorganisation on the quick.

Comparatively successful public health systems in Germany or Switzerland are built on a body politic that has been decentralised over a long time and across most administrative sectors. You cannot make politicians, civil servants or private contractors in the system "learn" subsidiarity over the course of a summer. The three-week nationwide "circuit breaker" lockdown Mr Starmer calls for would in all likelihood not change a thing.

Markus Haefliger
London SE5, UK

Covid-19 casts pall over Sweden's reputation

Our picture of Sweden as rational and practical seems based on shaky ground ("Sweden: why the 'moral superpower' dissented over Covid-19", the Big Read, October 16). The case of the substantial refugee inflow in 2015 does not contribute at all. If so, the increased inflow of refugees should have been stopped earlier, in 2013 or 2014, and that way reduced the motivation for the destructive penetration of the extreme right Sweden Democrats in political life, undermining the proper functioning of democratic institutions. That this did not happen had more to do with weak government, exhibited first by the Moderate coalition that lost the election in 2014; and after the election, by the dominant Social Democrats in the new government, than with rational and practical considerations.

Sweden's handling of Covid-19 deserves to be characterised in those terms. The refugee issue can be associated with slowness, as a Swedish characteristic, but lacks relevance to many of the other traits that contribute to the claimed uniqueness of Sweden.

Thord Palmund
Head of the Swedish Immigration Board in the 1980s, New York, NY, US

Oil and gas remain central to meeting energy needs

It may be unpopular, but it remains the case that oil and gas remains the backbone of global energy supply. Oil and gas will meet 46 per cent of the global energy demand in 2040 – according to the International Energy Agency's 2020 World Energy Outlook, published this week ("The slow death of Big Oil", September 18).

With a world facing a global crisis and tremendous uncertainties, access to reliable and affordable energy is one of the key enablers for economies to recover. Despite a temporary drop in demand, oil and gas is forecast to maintain a significant role in meeting global energy demand for many years to come.

However, the energy landscape is changing and so is the oil and gas industry. While helping satisfy global hunger for energy, we are also taking responsibility for a more sustainable energy future. We are supporting the international communities' commitment to address the challenges of climate change by mitigating methane emissions and developing low-carbon technologies such as carbon capture, utilisation and storage or blue hydrogen.

Gordon Ballard
Executive Director, International Association of Oil and Gas Producers, London EC2, UK

Leagues' success hinges on competitive balance

Your article (Report, "Football spat focuses on motives of US owners", October 14) acknowledges that US sports leagues allow for more even competition.

I am an A-level student with an interest in both UK and US sports leagues.

My EPQ (extended project qualification) in the first year of sixth form looked at how commercialisation has impacted the Premier League and the National Basketball Association, and how these leagues maintain a competitive balance.

Contrary to popular opinion, my findings showed that commercialisation has actually increased the competitive balance in the Premier League.

I also showed that due to rigid framework and regulations in the NBA, commercialisation has actually had relatively little impact on the NBA's competitive balance (which is higher than in the English Premier League).

Competitive balance is arguably the most important long-term determinant of success and sustainability in a sports league.

The current debate regarding the reorganisation of the UK football pyramid should consider the role of competitive balance, and aim to increase and not decrease it.

Max Davies
Upper Sixth, Cheltenham College, Cheltenham, Gloucestershire, UK

A fond recollection of the late 'Sam' Brittan

One thing to add to your excellent coverage of the sad death of Sir Samuel Brittan (The FT View, "Samuel Brittan made a unique contribution", October 13).

He was the most brilliant teacher. As a young FT correspondent in Washington when the UK was being rescued by the IMF in the mid-70s, I struggled with a lot of the economic detail surrounding the talks.

"Sam", as we always called him, was never too busy to explain – lucidly and patiently – and never once suggested that if I didn't understand maybe I should not be there at all!

David Bell
London N1, UK

Corrections

- John Lewis, which is not a listed company, was erroneously included in a stock market report on October 17. We apologise for the error.
- The Bakken oil and gas producing region in the US was wrongly spelt in an article on October 17.

Barrett's reticence is unlikely to hurt her. Republicans are instead predicting it will help them in the election, with Ms Barrett serving as a more palatable figurehead for some voters than the current occupant of the White House.

As Lindsey Graham, the Senate judiciary committee's Republican chairman who is locked in his own close race, put it: "I think the public will go into the voting booth and they'll say: 'OK, I've seen the kind of judges Democrats will nominate. I've seen the kind of judges Republicans will nominate.' And that will be important."

On the other side, Democrats have decried Republican hypocrisy in pushing forward Ms Barrett's confirmation less than two weeks before an election when they denied former president Barack Obama the chance to confirm his own nominee eight months before the 2016 vote. And there is a chance Ms Barrett's confirmation will motivate a higher Democratic turnout, while denting participation among Republicans who feel that with her confirmation imminent and a 6-3 conservative court majority all but assured, the issue is no longer worth fighting for.

Some GOP aides worry the proceedings could backfire against Republicans lower down the ballot. In addition to Mr Graham, two other Republicans on the Senate judiciary committee, Susan Collins of Maine and Joni Ernst of Iowa, face their own tough re-election races, with both

down by more than four points according to an average of polls.

Ahead of the hearing I spoke to Patty Kish, a life-long Republican and undecided voter in the suburbs of Richmond, Virginia, who is pro-life. She thought Ms Barrett's confirmation would clear her conscience to vote for Democrat Joe Biden in November. "In a way, it kind of relieves me," she said.

Yet by the time Ms Barrett had finished testifying, Ms Kish had changed her mind. "I think the hearings have kind of caused me to kind of go back to my conservative roots," she said. She was now planning either to cast a vote for Donald Trump or leave the top of the ticket blank.

No one is more aware of the stakes – or of the existence of voters like Ms Kish – than Senate majority leader Mitch McConnell, who was initially vague on whether the confirmation vote would take place before or after November 3. A vote before the election, as now looks likely, could signal even he has given up hope of Mr Trump holding the White House, and of endangered senators like Ms Collins winning their seats. Or it could suggest there are enough voters like Ms Kish who, after watching Ms Barrett, have found themselves swinging back.

As remarkable as Ms Barrett is as a Supreme Court nominee, these hearings might be remembered less for the probable future justice than for everything that came afterwards. The question is what that might be.

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Opinion

The UK adopts the Microsoft model

BRITAIN

Robert Shrimsley



How does a nation with an outsized ego adjust to life as a mid-sized power? For the UK, the answer has always been, with difficulty. But, post Brexit, the country is about to have another go at defining its global role.

Leaving the EU is a hit to its clout. But Brexit is now a fact. As a Nato and UN Security Council member, G7 economy and nuclear power, the UK still matters.

The new role, to be set out in the imminent security and foreign policy review, draws on Brexiters' twin belief in UK exceptionalism but also that leaving the EU was the shock therapy needed to make a sluggish economy more competitive. In Prime Minister Boris Johnson's words, the UK is

"a nation that is now on its mettle".

There is a model for a once-mighty empire, eclipsed by newer powers, finding a way to rise again. It is not a country, but a company: Microsoft. Crunched between Apple and Google, Microsoft switched from a failing strategy of desktop domination to services built around customers. For Brexit Britain, the Microsoft model is instructive.

Inevitably, money is a main driver. The spending review will tackle defence costs, and resources will shift from the army into drone technology and cyber security. One person close to the review predicts a cut in troop numbers from 82,000 to about 75,000.

Many of the principles will be familiar, not least the centrality of the US alliance. But key to the new diplomatic and commercial approach is marketing British values as a comprehensive service, one with limitless chances to upgrade. Buy a Microsoft license and you get the Office suite, Teams, cloud services and so on. Buy into the UK and you get a champion of world order plus legal and education services and fintech expertise (of special interest to nations discon-

certed by the spread of China's Alipay).

On defence, the UK has pushed weaponry that is too high end. "Most places don't need challenger tanks; they want small armoured patrol vehicles," says one minister. Having more tailored products allows for upsell later on. Underpinning the package is a UK that champions free trade and a rules-based order (an easier sell before the

Under this approach, our values will be marketed as a comprehensive service with limitless chances to upgrade

government's threat to breach an international treaty). "British values are at the centre of all this," says a minister. Imposing Magnitsky-style sanctions for human rights breaches underscores the UK's desire to be seen to be a good actor. It is pushing the case for turning the G7 into a "D10" group of wealthy, major democratic nations (adding India, South Korea and Australia). The theory

is a virtuous circle of commercial and diplomatic goals.

This leads us to the review's buzz phrase, the "Indo-Pacific tilt". Next year will see a formal push to join the CPTPP, the trade pact that includes Japan, Australia, Canada, Mexico, Chile and Vietnam. This would place the UK in an expanding trade bloc. But the tilt goes further. Dominic Raab, the foreign secretary, has put effort into courting Vietnam, though its current appetite for UK exports is tiny. Indonesia, Malaysia, Singapore and Thailand are also a focus. He laments "the intellectual laziness" of looking only at the major players. The tilt will inform defence decisions, boosting funds for the navy — maritime support for premium clients.

It is a decent notion and one that offers Brexiters a story to tell. Asia is the rising market. To adapt a Microsoft slogan, the UK wants to be "where's next".

How far this can be taken is arguable. The economic benefits of a tilt from Europe will take years to materialise. The UK is not a military power in the region, nor the only western country targeting a rising Asian middle class.

The export opportunities outside Japan and China are real but small. The UK is also wary of going too far in souring relations with China, fear of which is the glue uniting the other nations. Decisions such as pushing Huawei out of its 5G development, defiance over Hong Kong and the moves to cut reliance on strategic Chinese investment and goods are already alienating Beijing.

And the tilt must not become a reason to neglect Europe or its markets. A prime policy goal is ensuring stability in the UK's backyard. History shows few European crises stop at the Channel.

Ministers seem to see Nato as the only relevant vehicle here. German overtures to maintain something akin to the E3 security grouping of France, Germany and the UK have been rebuffed by London, which prefers ad hoc co-operation. This is a mistake. Influence comes from routine collaboration.

A tilt is good but it must not unbalance the entire edifice. Britain as a service should be competitive in all markets, especially its nearest one.

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Europe should tear down digital walls, not build new ones

Nick Clegg

It has long been the vision of European policymakers to make the continent a centre of digital innovation to rival the US west coast and China. With almost half a billion people across some of the world's most advanced economies, there is no inherent reason why Europe should lag behind.

The EU is about to produce a raft of new draft regulations, including a Digital Services Act covering everything from misinformation to app stores. Europe has long been a pioneer in internet regulation — as the General Data Protection Regulation has demonstrated — and much of what it does will be followed elsewhere. So getting this right matters not only to the EU but to the future of the wider internet, especially as US-China rivalry intensifies.

The future of the global internet as we know it is far from assured. The rise of the Chinese model — segregated from the rest of the web and subject to extensive surveillance — presents a real risk to the open internet enjoyed by billions of users around the world. Other countries, including Russia and Turkey, have made similar moves to build digital walls and exert "data sovereignty".

Much of what the EU aims to do is admirably rooted in values such as free expression, privacy, transparency and the rights of individuals. As the new rules are written, these values must be actively protected. But as the web fragments, Europe faces a fundamental choice: does it design rules to keep the internet open and global; or does it build barriers for the bloc alone?

Brussels has a choice: design rules to keep the internet open or build barriers for the bloc alone

The temptation to do the latter is understandable, especially as other nations flex their digital muscles. But Europe's competitiveness remains dependent on open global markets and unhindered trade within the single market.

It is worrying that some regulators and governments are increasingly acting unilaterally within the EU. Last week, the Financial Times reported that regulators have a "hit list" of measures targeted largely at US tech companies. The free flow of data between the EU and third countries has recently been thrown into question, potentially hindering Europeans' access to everyday services such as online shopping, video conferencing and social media.

A shift towards digital protectionism would be self-defeating. Far from putting Europe at the cutting edge, it could accelerate the splintering of the internet, leaving Europe a bystander as US and Chinese companies dominate.

I may work in Silicon Valley, but I am a proud European. I have worked both in the European Commission and as an MEP. I would love to see the next Google or Alibaba emerge in Europe. But it won't happen by accident.

European policymakers need to maximise the bloc's advantages — top-quality talent, a large consumer market, first-class universities — and address its deficiencies — the lack of deep and liquid capital markets, and a patchy commitment to entrepreneurialism and innovation.

Above all, EU decision makers need to create a genuinely borderless Europe-wide market. I have numerous political declarations in favour of a digital single market were accompanied by action, that would already have become a reality. But it isn't. To sell across the EU a start-up in Lisbon, for example, still has to navigate different intellectual property laws, licensing rules and obstacles to the delivery of goods.

This is even more urgent in the wake of coronavirus, as companies use data and digital tools to rebuild. Reaching customers online is now central to how Europeans do business.

Sovereignty versus competitiveness is a false choice. The EU can have both, and remove internal barriers without creating new ones for businesses seeking to reach the vast majority of the world's online population beyond EU borders. After all, its mission is to tear down walls, not to build new ones.

The writer is Facebook's vice-president of global affairs

A distracted US is dangerous for Taiwan

GLOBAL AFFAIRS

Gideon Rachman



The idea that a US election can be shaken up by an "October surprise" is a well-worn staple of political commentary. Less discussed is the danger that, if China takes advantage of political confusion in the US to make a move on Taiwan, international affairs could be convulsed by a November or December surprise.

The din of the American campaign is drowning out increasingly aggressive words and actions by China, as it threatens to use military force to combat what it regards as intolerable "separatism" by Taiwan, which is, de facto, an independent state, but claimed by Beijing.

Chinese military aircraft now regularly cross the median line between Taiwan and the mainland, forcing the Taiwanese air force to scramble. Last week, a flight from Taiwan was prevented from reaching the Pratas Islands — a Taiwanese-controlled outpost in the South China Sea. The flight was turned back by Hong Kong air traffic control, which cited unspecified dangers in the area and said the airspace is now closed.

Aggressive rhetoric in the Chinese media has been ramped up. Earlier this month, Hu Xijin, editor of the Global

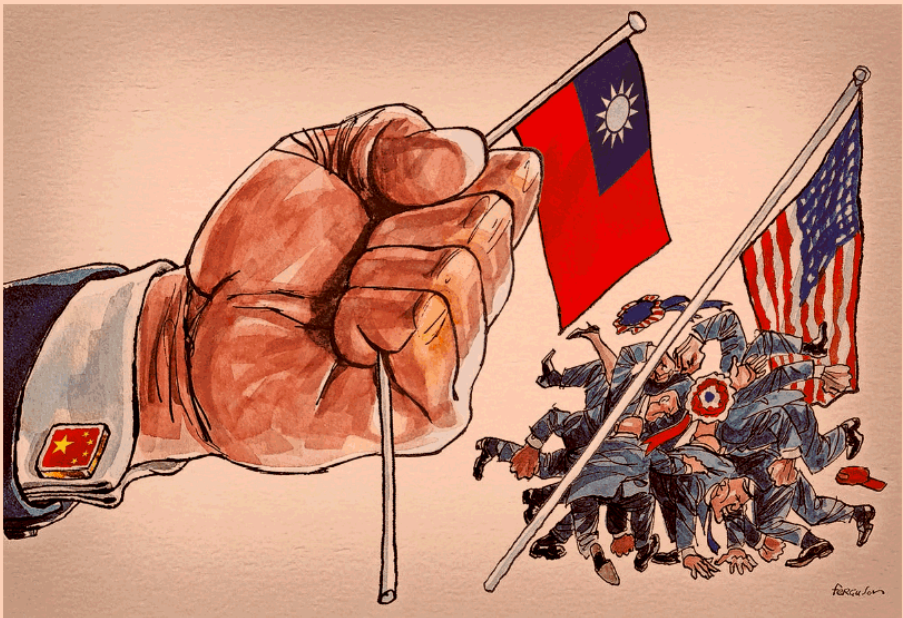
Times, a nationalist paper, wrote: "The only way forward is for the mainland to fully prepare itself for war... The historical turning point is getting closer."

For decades, the threat of a Chinese invasion of Taiwan has been held in check by the US. Washington has stopped short of an explicit security guarantee for Taiwan. Instead, it has maintained a policy of strategic ambiguity — selling arms to Taiwan and leaving open the possibility that the US would fight to defend the island. In 1996, when China fired missiles into the seas around Taiwan, the US sent aircraft carriers to the region to warn Beijing off.

Since then, however, China has engaged in a massive military build-up. And the US is now consumed by the most divisive presidential election campaign in living memory. Under these circumstances, the Chinese government may doubt continuing American commitment to Taiwan.

Beijing's window of opportunity could look even more tempting, after the US has voted on November 3 — particularly if the election result is disputed and the country is plunged into a political and constitutional crisis. Even if Donald Trump suffers a decisive and uncontested defeat, he would remain president until January 20, capable of causing all sorts of turmoil.

The background to the current crisis is a radicalisation of Beijing's position on Taiwan since President Xi Jinping became leader in 2012. Mr Xi says "reunification" with Taiwan is a crucial part of the "great rejuvenation" of the



Chinese nation — his signature project. He also says that the Taiwan issue can no longer be passed on "from generation to generation". He may see Taiwan as a way of securing his place in the pantheon of China's great leaders — alongside Mao Zedong.

Mr Xi has already demonstrated that he is willing to take military risks and repressive actions that antagonise the west and scare China's neighbours. As well as pumping up the rhetoric on Taiwan, China has imprisoned more than 1m Uighur Muslims and other minority groups, crushed the democracy movement in Hong Kong, built military bases across the South China Sea and killed Indian troops in the Himalayas.

The fact that China has coped with the coronavirus pandemic more success-

Xi has shown that he will take repressive actions that antagonise the west and scare China's neighbours

fully than the US has also led to widespread talk in Beijing that its old rival is in inexorable decline. Beijing knows that if the US failed to defend Taiwan, American allies across the region might lose faith in US protection — making Chinese hegemony in the Asia-Pacific seem inevitable and irresistible.

Nonetheless — even without American intervention — a full-scale Chinese assault on Taiwan would be formidably risky. Attempting to cross the Taiwan Strait and land troops on the island would entail mass casualties. China might need as many as 1m troops to stage a successful invasion and subsequent occupation. There is no sign that an invasion force of this size is being assembled.

It is more likely that Beijing will attempt to erode Taiwanese morale and autonomy by staging a series of smaller military, economic and psychological interventions. Cutting off the Pratas islands, which have an airport and administrative buildings but no permanent civilian population, would be exactly this kind of measure. If Taiwan

responds forcefully, it risks giving Beijing an excuse to hit back. But if it fails to respond, it looks powerless and suffers a symbolic defeat.

There is an array of other graduated steps — involving embargoes and territorial encroachments — available to China as it increases pressure on Taiwan. The danger, however, is that Beijing will misread Washington's response. For, while the US is indeed in a state of political turmoil, there is a bipartisan determination in Washington to retain the country's status as the dominant power in the Pacific and to stand up for fellow democracies.

Wars between great powers — including the first and second world wars — have often broken out because governments have miscalculated each other's reactions. As the historian Margaret Macmillan puts it: "What really becomes dangerous is when people begin to read the intentions of the other side and get them wrong." That could easily happen over Taiwan.

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Biden's three pillars of foreign policy

POLITICS

Anne-Marie Slaughter



The world is watching the US presidential election with horror: a process in which the incumbent seems determined to convince his base that any outcome other than a win for him means the election was rigged. A Joe Biden victory would reassure most foreign leaders that such chaos, at least, is over. But how much would US foreign policy actually change? In style, dramatically. In action, substantially but not completely.

The US would re-embrace multilateralism and reach out to allies and partners with renewed vigour. But it would still be more inwardly focused. It would return to the global fold on the necessity of combating climate change, pandemics and other global threats. But it would

still embrace great power competition and focus on China as its main rival. It would substitute a values-based foreign policy for a power-based approach. But it would not return troops to Syria or Afghanistan and would remain sceptical about foreign intervention.

Articles by Mr Biden and those likely to hold senior foreign policy posts in his administration suggest that the pillars of his foreign policy can be captured by three Ds: domestic, deterrence and democracy. These categories contain lots of sub-policies, but they are general principles guiding the investment of time and resources.

Mr Biden's foreign policy advisers would never use the term "America First", which to them means "America Alone", thumbing its nose at the world and insulting allies. But they would focus on domestic investment to renew the US. Jake Sullivan, a former Biden national security adviser, and Jennifer Harris, who was at the state department in the Obama years, tie this investment to US rivalry with China, arguing that the outcome hinges "on how effectively each country stewards its national econ-

omy and shapes the global economy."

The US, in this view, needs massive investment in "infrastructure, technology, innovation and education." To this I would add the need to demonstrably narrow the gaping racial gaps in virtually every area of the US economy. Industrial policy will also be necessary, aimed specifically at subsidising US companies to transition to clean energy and compete in an emerging green

Articles by him suggest his approach can be captured by three Ds: domestic, deterrence and democracy

economy. And the federal government will need to invest to ensure the US is more self-reliant in the production of everything from medical equipment to military technology.

Another aspect of strengthening the US domestically is a focus on tax to ensure corporations pay their fair share at home. Trade deals will also be viewed

more through a "fair trade" than a "free trade" lens — another area where Mr Biden will depart from President Donald Trump in style, less in substance.

Beyond domestic renewal, Mr Biden's foreign policy would revive the cold war reliance on deterrence, but with a 21st-century twist. Against the Soviet Union, deterrence was largely a matter of missile count. Missiles still matter, but deterrence today must be tailored to meet the favoured tactics of adversaries, mainly China and Russia but also Iran and North Korea.

Michèle Flournoy, a leading candidate for defence secretary in a Biden administration, has laid out the steps necessary to "reestablish credible deterrence of China" by changing Beijing's cost-benefit calculus when it considers acts of aggression. She believes particularly in the need for the Pentagon to invest in new technologies that protect US communications and battle management networks against China's efforts to degrade them. Deterring Russia's adventurism and efforts to sow division and distort democracy in the US and Europe requires other tools, many of

them more geared to domestic and global law enforcement than foreign policy.

The third defining principle of a Biden foreign policy is the embrace of democracy as a basis for choosing partners. He has announced that he plans to convene a summit for democracy in the first year of his presidency; Antony Blinken, a longtime Biden foreign policy adviser and former deputy secretary of state, has proposed a League of Democracies.

Commentator James Traub points out that phrases like "the free world" come naturally to Mr Biden, however old-fashioned they may seem to the progressive left. In this formulation, he writes, Mr Biden "would refound 'the west' for a new age of problems without borders". Perhaps. Mr Biden and his advisers are still more comfortable dealing with problems that require beating or bonding with other nation states than those that transcend borders such as climate change. Still, unlike Mr Trump, they recognise the need to manage both types.

The writer is CEO of the New America think-tank and an FT contributing editor

Lex.

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Conoco/Concho: surfing the wave

Any lingering doubts about the wave of consolidation engulfing the US oil and gas industry were put to rest by ConocoPhillips' all-stock deal for Concho Resources yesterday.

Valued at \$13.3bn including debt, this is not only the year's biggest deal but the third big transaction in the US shale industry in under three months. All three – struck at little or no premium – offer a marked contrast to Occidental Petroleum's pricey \$55bn acquisition of Anadarko Petroleum last year. Patience is truly a virtue.

Like Chevron, which agreed to buy Noble Energy in July in a \$13bn transaction, Conoco is taking advantage of its relatively strong balance sheet to Hoover up bargains. An oil price that has stabilised at about \$40 a barrel should make the case even more compelling for investors.

Conoco's offer – at around \$49.30 a share – is a mere 15 per cent premium to Concho's closing price on October 13, before news of the deal talks surfaced. In return, it is buying one of the biggest shale operators in the Permian Basin. The acquisition will immediately catapult Conoco to the number three spot in US shale production. Its expected 2020 output of 465,000 barrels per day will surpass Occidental's and put it just behind Chevron and EOG Resources, according to energy consultancy Wood Mackenzie.

Concho, whose shares were trading at \$158 just two years ago, has little net debt – its \$3.6bn is around 1.3 times expected EBITDA for this year. Another attraction: few of Concho's wells are on federal lands. This could become an significant advantage if Joe Biden wins the US presidency in November and follows through with his proposal to ban new fracking permits on government land.

Taxed and capitalised, the \$500m of annual cost savings forecast by Conoco are worth as much as \$4bn. That is about 40 per cent the equity value of the deal, suggesting that Conoco has got a great price. For Conoco investors, the main downside is they will have to wait a little bit longer for share buybacks to restart. The company said that its stock repurchase programme will remain suspended until the first

quarter of next year, when it expects the Concho deal to close. Judging by the muted reaction of Conoco shares when the announcement was made, investors clearly believe that it will pay to wait.

Landsec/UK property: house rules

If you really want to annoy Mark Allan, tell him that Landsec is "like an oil tanker". That sounds like an excuse for responding to seismic change slowly to the newish chief executive of the UK's largest landlord. Mr Allan's plan to liberate swaths of redundant retail space for housing reflects greater urgency.

Retail is the UK's new brownfield opportunity. Hollowed out by e-commerce and the coronavirus pandemic, assets such as Landsec's 2.2m sq ft of retail parks are begging for redeployment. Fresh housing supply could be one hope that flutters from the pandemic's Pandora's Box of miseries. UK housebuilders produce only about 160,000 new dwellings a year – 90,000 less than estimated demand.

If the retail parks Landsec plans to sell all sprouted apartment blocks, they could accommodate 10,000 households.

Assume half the UK's entire retail estate became high-density dwellings. Another 260,000 households would have somewhere to live – in theory. The real number might be lower. Restricted supply has enriched homeowners, a powerful lobby group.

Landsec has some lobbying of its own to do with investors. Mr Allan is earmarking assets worth more than £1.5bn for disposal, including hotels and leisure spots. That is more than 10 per cent of the portfolio. The shares are trading at only half their book value, presaging writedowns.

To re-rate the shares, Mr Allan needs to somehow sell unwanted assets for decent prices in an unreceptive market, while reinventing the office.

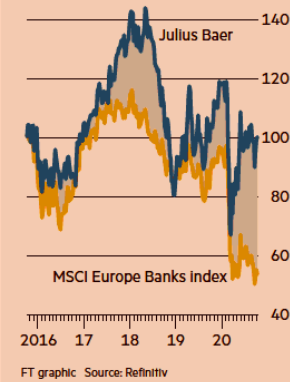
He can at least offer a steep yield when dividends resume, underpinned by relatively low leverage. That gives him some time to change the course of the large, long cargo

Julius Baer: getting there

Julius Baer's share price has performed well compared with other European banks in recent years. Though the Swiss private lender has a premium valuation, trading well above book value, it could do better. Julius Baer still trails its peer Vontobel. To close that gap, asset inflows will need to surge further in the year ahead.

Julius Baer has outrun European banks

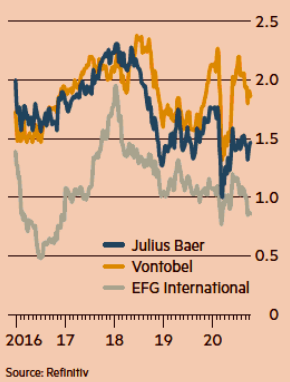
Total returns (in SFr, rebased)



FT graphic Source: Refinitiv

Its premium valuation still trails Vontobel

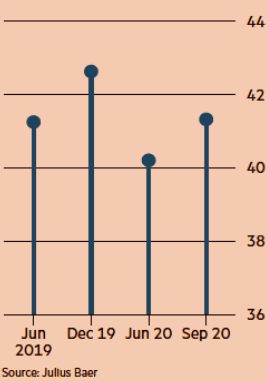
Price to book ratio



Source: Refinitiv

More inflows could close the gap

Assets under management (SFr bn)



Source: Julius Baer

Jumping ship to a rival is one form of travel that private bankers can still indulge in. Swiss bank Julius Baer has lost teams to local rival Pictet. Last week board member Christian Meissner left for Credit Suisse after much less than a year in the job.

The exits will not faze Philipp Rickenbacher, Julius Baer chief executive. The business is steaming steadily ahead, with costs nicely in check.

A trading update yesterday underscored the bank's potential, despite the furious competition for talent. The third-quarter cost to income ratio, already low against the largest Swiss banks, fell to 66.1 per cent – down half a percentage point from June. This beats the local

sector's average of 74 per cent, on Citi's estimates. Better profitability has led to capital formation, with common equity tier one capital rising to 14.3 per cent.

The direction of travel is towards better shareholder payouts, as soon as the Swiss watchdog approves of them.

More importantly, net new inflows of client money are accelerating at an annualised growth rate of nearly 4 per cent – almost double the pace at the half year. Mr Rickenbacher says these are new external funds, not just clients borrowing on margin.

Julius Baer appears to have snatched some business away from its rivals. The share price rose more than 5 per cent on the day, undeterred by a goodwill impairment on its Italian unit.

Much still depends on retaining top

relationship managers, who must deliver the highest portfolio returns for their wealthy clients while deferring to their whims.

A new remuneration plan for the front office stars officially starts from January. The idea is to align pay packages more closely with the profitability of the bank, not just assets managed (or churned).

A cheery Mr Rickenbacher, formerly a McKinsey consultant, talks up future efficiencies. Caution is warranted. If efficiencies mean less pay for those in charge of client relationships then staffers will trek elsewhere.

For now, however, he deserves credit for keeping the private bank on course.

vessel whose name must not be mentioned. Buy on progress with disposals.

Brookfield/annuities: field of dreams

"Is this heaven?" "No. It's Iowa." This exchange in the baseball film *Field of Dreams* lives on in asset management.

Iowa has become the promised land for alternative investment firms. Thanks to a friendly regulatory regime, the state hosts several life insurers, none more coveted than American Equity Investment Life (AEL). On Sunday, AEL announced it would sell a fifth of itself to Canada's Brookfield Asset Management at \$37 per share, a 68 per cent premium.

AEL already faced an unsolicited joint bid from MassMutual and Athene Holding, the latter life insurer backed by Apollo Global Management. By opting for Brookfield, AEL hopes to prosper as an independent company while wringing out money from the Masters of the Universe in the alternative assets arena.

Annuities companies are "spread" businesses. Customers are captured at a fixed return while the insurer captures the difference between those and the insurer's returns on investment. Wall Street wizards believe they can create high-yielding – yet safe – credit investments that a legacy insurer cannot. AEL believes it can still sell annuities efficiently annually. But it has also entered into a reinsurance agreement with Brookfield, which will

take responsibility for up to \$10bn worth of annuity liabilities.

This shifts the investment risk and reward. AEL will receive an annual fee fixed at 71 basis points on the annuity books Brookfield manages. By shedding liabilities and the associated capital charges while also receiving fixed fees, AEL expects to become capital and risk light. The juicy price Brookfield separately pays for its minority stake, which values AEL at roughly \$4bn, confirms its cleverness.

AEL had been an unremarkable, company for years. It is now one of the rare large annuity providers not yet snared up by an alternative asset manager. MassMutual and Athene may well raise their takeover bid. At the very least, AEL has set itself up for a more divine deal down the road.

Alibaba/Sun Art: fresh meat

Lobsters and oysters on your doorstep within minutes. This is one of the goals Alibaba has in mind by spending \$3.6bn to buy a controlling stake in China's leading supermarket operator, Sun Art Retail Group. The Chinese group's plan to increase its produce offer is a tasty one.

The deal raises Alibaba's existing 36 per cent stake to 72 per cent, with Alibaba taking over France's Auchan Retail International's stake and making an offer to shareholders for the rest.

Shares in Hong Kong-listed Sun Art rose 19 per cent yesterday, suggesting investors know Alibaba will pay up to secure the remaining stake. An offer of up to HK\$17bn (\$2.2bn) is expected.

Even so, Alibaba has scored a good deal. Auchan Retail agreed to sell for just a touch more than Friday's closing price. At 23 times forward earnings it is priced at a discount to global peers such as Walmart.

The French company's eagerness to offload fits a pattern. Foreign retailers attempting to expand into China rarely succeed. Most – including Amazon, Tesco, Carrefour and Metro – have ended badly. While Sun Art's group revenue and same-store sales grew in the first half, several hypermarkets under the Auchan brand shut down.

Consumer tastes in China are both fast-changing and fragmented – preferences vary wildly by city and are driven by fads.

Large retailers must also be able to double as property developers – a growing part of their revenues is rental income from businesses ranging from catering to education. Foreign retailers so far have not been prepared to make investment decisions in the complex mainland property market.

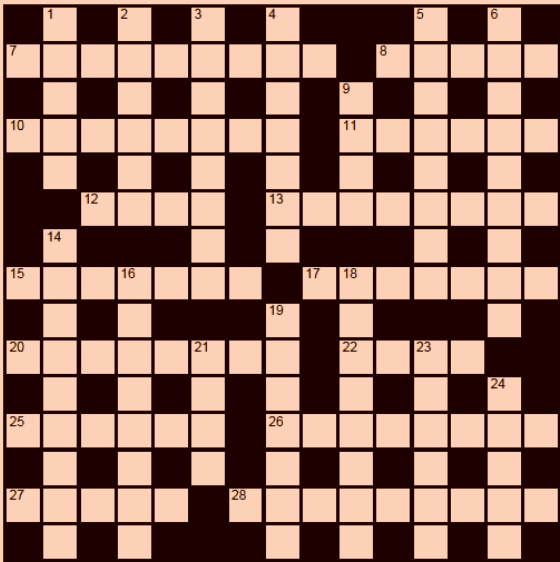
For Alibaba, Sun Art stores will add the finishing touches to its "new retail" strategy to combine online and offline stores using big data. That bet is just starting to pay off. It has spawned a business line that accounts for a fifth of total sales – just as growth in the core e-commerce business slows. Alibaba has delivered a deal that works for all sides.

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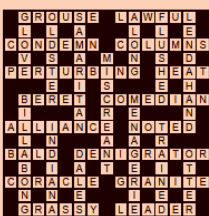
- 7, 8 How can spitting feathers make one miserable? (4,2,3,5)
10 Block opportunity for provisional admittance to theatre (8)
11 Public relations (6)
12 Surrealist's core determination (4)
13 Comes out with previous demands (8)
15 Counter with "spend or be damned!" (7)
17 It's descriptive of Yellowstone and Yosemite but it's pants! (1-6)
20 When a suit's to be pressed, one can do it for you! (8)
22 Without it, guilty as charged, which is shocking (4)
25 Eve begins correspondence in this philosophical issue (6)
26 On the farm, one's outrageously daring between the lines (4,4)
27, 28 The fewer the hits, the more successful it's been! (5,5,4)

DOWN

- 1 Prize Scotch two-thirds gone, drunk by youth (5)
2 Marksman gets the bird, right? (6)
3 Organisation quick to measure disconnect (8)
4, 19 Retailers chasing cyclist are wide boys! (7,7)
5 American's tone is trouble for state (8)
6 Carrying on? No, so gone off to make love (9)
9 Impressive Ealing comedy first to feature detective (4)
14 H has the advantage! (4,5)
16 Laid on expert who struggled to keep date (8)
18 Profanity on island in Essex (8)
19 See 4
21 Partially collapsed during recess (4)
23 Gift, for example, wrapped in something ornate (6)
24 Mrs Grundy is cautious and wise? Not half! (5)

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